Royal Mail plc

Financial Report for the full year ended 31 March 2019

Wednesday 22 May 2019

SUMMARY OF FULL YEAR 2018-19 RESULTS AND STRATEGIC PLAN

Royal Mail plc (RMG.L) is today announcing its results for the full year ended 31 March 2019 and setting out an Outlook for 2019-20. The Company is also presenting its strategy, financial and business performance ambitions for the next three and five years. A range of presentations will set out detailed and comprehensive measures to deliver sustainable shareholder returns and underpin the Universal Service in the UK. This document summarises the main points in the Full Year 2018-19 Results and the strategic plan. A webcast of the presentations referred to above, which commences at 9.30am on 22 May 2019, will be available at www.royalmailgroup.com/results.

Rico Back, Group Chief Executive Officer, said: "Our ambition is to build a parcels-led, more balanced and more diversified international business, delivering adjusted Group operating profit margin of over four per cent in 2021-22, increasing to over five per cent in 2023-24."

"At the heart of our refreshed strategy is a UK 'turnaround and grow' programme. In 2018-19, after a challenging year, we delivered productivity improvements and cost avoidance in line with our revised expectations. Over the next five years, through a focus on new ways of working and extending our network, we will ensure a contemporary UK Universal Service.

"The investment in the UK, and expected lower cash flow in the early years, means we are rebasing the dividend and changing our dividend policy. This is not a decision we have taken lightly as we know how important the dividend is to our shareholders. We have sought to find an appropriate balance between sustainable shareholder returns, and investing in the future.

"GLS is a key part of our strategic plan and will make a major contribution to our product and geographical diversification. By combining the best of Royal Mail and GLS, we will enhance our cross-border proposition in this large, growing and global market."

FULL YEAR 2018-19 RESULTS

Reported Group Financial Summary[1,2]

Reported Results (£m)	53 weeks March 2019	52 weeks March 2018
Revenue	**10,581**	10,172
Operating profit before transformation costs	**474**	236
Operating profit after transformation costs	**341**	123
Profit before tax	**241**	212
Basic earnings per share – continuing operations (pence)	**17.5p**	25.9p
Proposed full year dividend per share (pence)	**25.0p**	24.0p

- Reported revenue up £409 million due to impact of 53rd week in UKPIL and higher parcels revenue in UKPIL and GLS.
- Reported operating profit before transformation costs up £238 million, largely due to £371 million reduction in IAS 19 pension charge partly offset by higher costs in GLS and increased people costs (excluding pension costs) in UKPIL.
- Operating specific items charge of £181 million, up £124 million.

1 Reported results are in accordance with International Financial Reporting Standards (IFRS). Adjusted results exclude the pension charge to cash difference adjustment and specific items, consistent with the way financial performance is measured by Management and reported to the Board.

2 For further details of reported results, adjusted and underlying Alternative Performance Measures (APMs) used in the Financial Report for the full year ended 31 March 2019, including reconciliations to the closest IFRS measures where appropriate, see section entitled 'Presentation of results and Alternative Performance Measures.' Movements are presented on an underlying basis.

3 The UKPIL reported results are for the 53 week period to 31 March 2019. We are also presenting the 53 week results on an adjusted basis. The GLS financial year is the 12 months to 31 March 2019. In order to provide a meaningful comparison of revenue and incremental costs with the prior year, we are also presenting the Group and UKPIL income statements to operating profit on an adjusted 52 week basis. The adjusted 52 week 2018-19 results are derived by removing an estimate of the 53rd week's revenue and incremental costs. All comparisons between 2018-19 and 2017-18 income statements to operating profit after transformation costs are on a 52 week basis unless otherwise stated.

Adjusted Group Financial Summary[2,3]

Adjusted Results (£m)	53 weeks March 2019	52 weeks March 2019	52 weeks March 2018	Underlying change[2]
Revenue[3]	**10,581**	**10,444**	10,172	2%
Operating profit before transformation costs[3]	**544**	**509**	694	(26%)
Operating profit after transformation costs[3]	**411**	**376**	581	(34%)
Margin[3]	***3.9%***	***3.6%***	*5.7%*	*(200bps)*
Profit before tax	**398**		565	
Basic earnings per share (pence)	**30.5p**		45.5p	
In-year trading cash flow	**117**		545	
Net (debt)/cash	**(300)**		14	

- Revenue up two per cent to £10.4 billion, driven by good revenue growth in UKPIL parcels and GLS which more than offset letter revenue decline.
- Adjusted operating profit before transformation costs of £509 million, in line with our expected range of £500-530 million.
- Transformation costs of £133 million.
- Adjusted operating profit margin after transformation costs of 3.6 per cent, down 200 basis points.
- Total net cash investment[2] of £462 million, lower than expected due to lower transformation operating expenditure.
- In-year trading cash flow[2] of £117 million, negatively impacted by timing differences in working capital associated with the 2017-18 frontline pay award and the 53rd week.

Business Units[2,3]

	Revenue			Adjusted operating profit before transformation costs		
(£m)	**52 weeks March 2019**	52 weeks March 2018	Underlying change[2]	**52 weeks March 2019**	52 weeks March 2018	Underlying change[2]
UKPIL	**7,595**	7,615	Flat	**332**	503	(32%)
GLS	**2,888**	2,557	8%	**177**	191	(9%)
Intragroup	**(39)**	–	–	**–**	–	–
Group	**10,444**	10,172	2%	**509**	694	(26%)

Business unit performance

- UKPIL revenue flat at £7,595 million with good parcel revenue growth offsetting total letter revenue decline.
- UKPIL parcel performance better than 2017-18 with volumes up eight per cent and revenue up seven per cent.
- Addressed letter volumes (excluding political parties' election mailings) declined eight per cent, in line with our revised expectations. Total letter revenue down six per cent.
- Achieved £107 million of costs avoided, compared with revised target of £100 million.
- Productivity improvement of 0.9 per cent for full year, 1.9 per cent achieved in second half.
- Adjusted UKPIL operating costs before transformation costs up two per cent, due to lower productivity and cost avoidance.
- Adjusted UKPIL operating profit margin after transformation costs of 2.6 per cent, down 240 basis points.
- GLS delivered continued good revenue growth, up eight per cent on volume growth of five per cent.
- Adjusted GLS operating profit of £177 million, down nine per cent.
- Adjusted GLS operating profit margin of 6.1 per cent, in line with our expectations.

2019-20 Outlook (see Targets and Ambitions Table on pages 4 and 5 for a three and five year view)

- We expect addressed letter volume declines of five-seven per cent (excluding political parties' election mailings), due to continuing business uncertainty and its impact on the economy and the ongoing impact of GDPR.
- UKPIL parcel volume growth expected to outpace UK addressable market growth of four-five per cent.
- We expect productivity improvements of over two per cent.
- We anticipate costs avoided of £150-200 million.
- We expect Group adjusted operating profit after transformation costs of £300-340 million.
- The Board is recommending a final dividend of 17.0 pence per share, giving a full year dividend of 25.0 pence per share for 2018-19, an increase of one pence per share, or four per cent.
- It is then rebasing the dividend and changing the dividend policy. From 2019-20, the policy is for a full year dividend underpin of 15.0 pence per share, which may be supplemented by additional payouts in years with substantial excess cashflow. The dividend is expected to be covered by cumulative trading cashflows over both three and five years.
- Our new dividend policy reflects the additional investment to turnaround and grow our UK business and expected lower cash generation in the early years of the plan.

STRATEGY AND FINANCIAL OUTLOOK: THREE AND FIVE YEARS

Strategy

Our ambition is to build a parcels-led, more balanced and more diversified international business, delivering an adjusted Group operating profit margin of over four per cent in 2021-22, increasing to over five per cent in 2023-24. Our purpose is to connect customers, companies and countries.

To achieve this ambition, our strategy is focused on the delivery of three key priorities:

'Turnaround and grow' in the UK:

- following an extensive review of our UK business, a new transformation plan is now required, with a renewed focus on improved service, efficiency and productivity supported by a focus on productivity initiatives, a range of new, digitally enabled work tools and targeted investments
- continued success in UK parcels
- an extension of our UK network to handle large parcels and small tracked parcels more efficiently

As part of our overall UK strategy, Royal Mail will invest around £1.8 billion over five years in the UK's postal service. This will be made up of the Company's existing investment projects and additional expenditure to fund the UK 'turnaround and grow' programme. This investment, alongside the £2.1 billion invested in the UK since 2013, the year Royal Mail floated on the London Stock Exchange, means almost £4 billion has been committed to the UK since our privatisation.

Scale up and grow GLS:

- ongoing focus on profitable revenue growth including yield management
- continued focus on B2B, with selective growth in B2C
- integration of existing acquisitions

Enhancing our cross-border proposition:

- focus on driving incremental value from the combined strengths of Royal Mail and GLS in small and deferred parcel shipments
- growth in share of UK export parcels market

The pursuit of these priorities allows us to have the ambition to improve the financial outlook for the Group.

Summary of targets and ambitions on a three and five year view and outlook for 2019-20

	SHORT-TERM (2019-20 / 2020-21)	AMBITION IN 2021-22	AMBITION IN 2023-24
GROUP[4]			
Revenue	Two-three per cent CAGR revenue growth over both three and five years.		
	Ambition to have revenue of around £12bn in 2023-24.		
Adjusted operating profit[5]	2019-20 operating profit after transformation costs of £300-340 million.		
Adjusted operating profit margin[5]	Margin compression in the short-term.	Adjusted Group operating profit margin of over four per cent in 2021-22.	Adjusted Group operating profit margin growing to over five per cent by 2023-24.
Gross capital expenditure	£400-500 million of incremental cumulative gross capital expenditure over five years (predominantly in the UK), above annual ongoing capital expenditure of c.£400 million. Within ongoing capital expenditure, GLS expected to increase to support growth. Depreciation expected to increase by c.£15 million per annum.		
In-year trading cash flow	Dividend expected to be covered by cumulative in-year trading cashflow over both three and five years.		

4 For further details of reported results, adjusted and underlying Alternative Performance Measures (APMs) used in the Financial Report for the full year ended 31 March 2019, including reconciliations to the closest IFRS measures where appropriate, see section entitled 'Presentation of results and Alternative Performance Measures.' Movements are presented on an underlying basis.

5 Adjusted Group operating profit margin calculates adjusted operating profit as a proportion of revenue in percentage terms. Adjusted group operating profit includes the impact of voluntary redundancy and project costs (previously categorised as transformation costs). For further details on Adjusted Group operating profit, reported results, adjusted and underlying Alternative Performance Measures (APMs) used, see section entitled 'Presentation of results and Alternative Performance Measures'.

UKPIL

Addressed letter volumes (excl. elections)	Five-seven per cent decline in 2019-20.	Maintain medium-term outlook of four-six per cent per annum addressed letter volume decline.	
Letter prices	Targeted price rises at or above inflation.		
Parcel volume growth	Aim to grow volume at above our addressable market growth rate of four-five per cent per annum.		
Parcel revenue growth	Parcels revenue growth above five per cent CAGR over five years.		
Revenue	UK returns to growth, assuming GDP growth rate reverts to recent historic average level of approximately two per cent.		
People costs	People cost pressures (including frontline staff and managers' overall compensation) not offset by productivity gains.	People cost pressures to be more than offset by productivity improvements / hours reductions.	
Non people costs	Impacted by CPI and costs associated with parcels growth (e.g. terminal dues and logistics) of around £50 million per annum.		
Costs avoided	Around £1 billion of cumulative costs avoided over five years.		
	Costs avoided of £150-200 million in 2019-20.		
Transformation costs	Will be incorporated into operating costs at c.£150 million per annum.		
Adjusted operating profit margin[5]	Margin compression in the short-term.	Targeting UKPIL adjusted operating profit margin of three-four per cent in 2021-22.	UKPIL adjusted operating profit margin to reach five per cent in 2023-24.
Productivity	Cumulative 15-18 per cent productivity gains targeted over five years, weighted to later years.		
	Returning towards historic two-three per cent per annum productivity target. Over two per cent in 2019-20.		
Hours worked	We anticipate an hours reduction of around three per cent per annum.		
GLS			
Revenue	Targeting around €4.5 billion revenue in 2023-24.		
Adjusted operating profit margin	Targeting adjusted operating profit margin of six-seven per cent per annum.		

Assumptions

We have based our future outlook on our current assessment of the macroeconomic outlook in the UK and the Group's other main markets. Royal Mail's business performance is closely aligned to UK economic growth. We assume that GDP growth will remain below average in the near-term, and return to a typical growth rate in the medium-term. We will work closely with our unions on our UK 'turnaround and grow' programme, and assume we will deliver the change in a collaborative manner. All outlook is provided on an adjusted 52 week basis and excludes the impact of IFRS 16, which is estimated to increase Group operating profit after transformation by around £35-45 million and increase the annual depreciation charge by around £120-130 million resulting in a net increase to adjusted EBITDA of around £155-175 million. UK parcels and letters revenues and volumes are estimated using a new methodology from the 2019-20 financial year onwards.

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SUMMARY OF OUR FIVE-YEAR STRATEGIC PLAN

1. Transforming and growing our UK business

Following a review of our UK business, we are announcing today a major, five-year UK 'turnaround and grow' plan. By investing in productivity, network and customer focused initiatives, following a period of margin compression in the early stages of the plan due to the cost of the Agreement (see below) and productivity gains weighted toward the latter period, our objective is to restore and enhance the UKPIL adjusted operating profit margin. We are targeting an adjusted UKPIL operating profit margin of three-four per cent in 2021-22. We anticipate the margin will reach five per cent in 2023-24, ensuring a sustainable Universal Service. This transformation is vital. While we expect to handle many more parcels in the years to come, forecasts suggest the number of UK domestic letters in our mail bag will decline by around 26 per cent over the next five years[6]. That is a key imperative for change.

An assessment of the productivity and efficiency opportunities under the 2018 Agreement underlined the need for a turnaround programme. The pension settlement achieved under the Agreement delivered significant financial benefits to the Company in terms of avoidance of large increases in costs avoided if the defined benefit pension arrangements had continued. The assessment found that a step change was required in the form of a new transformation plan to fund the overall cost of the Agreement to Royal Mail. While the overall operational direction set out in the Agreement is right – more digitally enabled work tools and better data capture – the review found that the initiatives so far designed to fund it were not enough in themselves to do so; nor were they all at the appropriate stage of readiness. Hence the need for a major shift in focus and pace, including a new transformation plan for our UK operations.

We know this is a demanding change programme: we have informed our unions about our plan. We will engage closely with them, and our colleagues, in the coming months as we work collaboratively through the strategy, detailed design and deployment.

1a) Renewed focus on productivity: operational excellence and key work tools

- We are targeting a cumulative productivity improvement of 15-18 per cent over the next five years, weighted to the latter years of the plan: We aim to do so through: (a) a stronger focus on day-to-day productivity gains; and (b) embedding key, digitally-enabled work tools (e.g. PDA Outdoor Actuals, which gives better visibility of outdoor activity). These tools in combination will deliver better alignment of resources to workload and a data driven approach to people management.
- A major increase in parcel sorting automation: About 12 per cent of our UK parcels are machine sorted. Our objective is to increase that to over 80 per cent within five years. We will install parcel sorting machines in our Mail Centres in the early years of the plan.

1b) Extending our UK network to: a) deliver a reduction in the unit cost of handling larger and small parcels; and b) secure productivity gains:

- Continued combined delivery of letters and small parcels will be a key design principle: We estimate that we visit around 60 per cent of UK delivery points each day. Our review confirmed the compelling cost advantages of combined delivery.
- We will extend our UK network to: (a) maximise the benefits of delivering letters and small parcels together; and (b) handle larger and small parcels more efficiently, including a unit cost reduction for both:

  - Three new, fully-automated parcel hubs will be built, handling all large parcels, later posted items and small tracked parcels. They will operate alongside the existing Mail Centres.
  - Separate van delivery for next day and larger parcels routed through potentially 200-300 of our existing, larger Delivery Offices. We have already informed our unions about our plan. We will closely engage with them on strategy, detailed design and deployment, including a trial for the separate van delivery. The trial will inform the outcome. Delivery of letters and small parcels will remain unchanged through our existing Delivery Office network.

1c) Market leading terms and conditions, a major UK geographical presence and enhanced customer service

- Royal Mail is one of the UK's biggest employers with the best terms and conditions in the UK delivery industry: We anticipate an hours reduction of around three per cent per annum. We are committed to working carefully and considerately with our unions and our colleagues in relation to the impact on them of our transformation programme. We have a good track record of delivering change sensitively, through natural turnover, redeployment and voluntary redundancy wherever possible. In line with current agreements, we will continue to deliver change without compulsory redundancies.
- One of the UK's biggest physical networks: Potentially 200-300 of our bigger Delivery Offices will receive significant investment to handle more larger and later posted next day parcels.
- With the new parcel hubs and separate van deliveries in place in 2023, in a major increase in delivery frequency for consumers and SMEs, we will introduce two deliveries a day in most parts of the country: Firstly, consumers will receive the usual letters and small parcels delivery. Secondly, there will be a delivery later that day of larger or next day parcels they have ordered, in many instances, in less than 24 hours.

[6] The Outlook for UK letter volumes to 2028, PwC, May 2019

1d) UK Parcels and Letters: becoming a parcels-led business; letters remain important

Parcels

- **Targeting volume growth at above the expected addressable UK parcel market growth rate:** We expect addressable UK parcel market volume growth of four-five per cent per year[7]. We are targeting revenue growth of over five per cent CAGR over five years.
- **Major new customer and e-retailer initiatives coming on stream:** In the single biggest repurposing of our postbox network for some time, we will introduce c.1,400 parcel postboxes across the UK. The majority of these postboxes will be in place by the end of 2019-20. We will also for the first time begin collecting returns from consumers at their home, and offering more in-flight redirections for individual parcels. Further initiatives will follow.

Letters

- **Letters – and letters communication – will continue to be important to Royal Mail and the UK:** After Germany, the UK currently has the most letters per capita (151 per annum) in Europe[8].
- **The structural decline of letters will continue but, even on a five-year view, there will still be significant numbers of letters in our mailbag:** According to research we commissioned from PwC, the number of UK letters will decline by around 26 per cent from 10.3 billion today to 7.6 billion in 2023[9].
- **Addressed letter volume declines:** Royal Mail forecasts UK addressed letter volume declines will return to our medium-term rate of four-six per cent per annum (excluding political parties' election mailings) from 2020-21, as GDP recovers and the impact of GDPR diminishes.

2) Scaling up and Growing GLS

GLS is one of the largest, ground-based deferred parcel networks in Europe, with a growing presence in the US and Canada. It includes a diverse portfolio of businesses which are local, flexible and close to customers. Our strategy is designed to ensure that GLS builds on its strong, 30-year track record and makes a major contribution to the Group's product and geographical diversification over the next five years. We are also implementing improvement plans in the US, France and Spain. These three markets represent 20 per cent of revenue. More broadly, the GLS overall focus will be on profitable revenue growth, including focused yield management. We will bring together the best of Royal Mail and GLS to grow our own cross-border and global parcel propositions.

- **We are targeting around €4.5 billion revenue in 2023-24:** We expect to deliver this through organic growth.
- **Continued focus on B2B, selective growth in B2C:** The GLS B2C approach will be centred on service and margin management, a balanced e-retailer portfolio and tailored solutions for local market needs.
- **GLS well placed to benefit from growing cross-border parcels:** International shipments have grown in recent years. GLS will enter the small parcel market, working with Royal Mail International, to improve its export offering to Europe and North America (see below).
- **We are targeting a GLS adjusted operating profit margin of six-seven per cent per annum:** Network optimisation, a focused pricing strategy and an emphasis on high margin products will underpin the margin.

3) Enhancing our Cross-Border Proposition

Royal Mail Group currently generates combined annual revenue of around £1.7 billion from its cross-border parcel and letter business. The cross-border parcels market is a large, attractive growth opportunity for the Group. Cross-border, B2C spend, driven by e-commerce, has been predicted to grow by 33 per cent CAGR[10]. We will combine the best of Royal Mail International and GLS to offer a global proposition in smaller and larger cross-border parcels.

- **Focused strategy centred on deferred parcels and small parcel shipments (mainly untracked):** We will leverage Royal Mail International's (small parcels) and GLS' (deferred, larger items) combined strengths. Small and deferred parcels account for around 75 per cent of all cross-border deliveries.
- **We expect to grow the Royal Mail International share of the UK export parcels market:** With GLS, Royal Mail International will, for the first time, offer export parcel delivery services above the current 2kg limit to key account customers.
- **GLS will leverage Royal Mail International's cross-border expertise and reach in small parcels:** approximately 70 per cent of e-commerce cross-border deliveries are below 1kg. National postal operators have strong economics in this segment through combined foot delivery. Through Royal Mail, GLS will have access to this network and will extend its service proposition accordingly.
- **Royal Mail International and GLS are jointly developing a pan-European solution for Asian imports:** The Asia-Pacific market is the fastest growing cross-border e-commerce market globally. Royal Mail International and GLS will participate in this market by offering a joint, consolidated import solution across Europe.

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[7] Triangle/RMG UK Fulfilment Market Measure; RMG analysis
[8] Annual Reports, IPC, Statistical Database, Worldometer.info
[9] The Outlook for UK letter volumes to 2028, PwC, May 2019
[10] 2014-2020 data; Why Cross Border Ecommerce is the Future of Ecommerce, 2017

GROUP CHIEF EXECUTIVE OFFICER'S REVIEW

Our ambition is to build a parcels-led, more balanced and more diversified, international business. To achieve this, we will focus on the delivery of three strategic priorities:

- *'turnaround and grow' in the UK;*
- *'scale up and grow' GLS; and*
- *enhancing our cross-border proposition.*

We aim to deliver sustainable shareholder value in the medium-term and underpin the UK's Universal Service. Accordingly, our ambition is to deliver an adjusted Group operating profit margin of over four per cent in 2021-22, increasing to over five per cent in five years' time. *For a review of our financial and business performance in 2018-19, please see pages 13-15.*

Backdrop and overview

It was a privilege, just under a year ago, to become Group CEO of Royal Mail. For over 500 years, we have been part of the fabric of the UK. We have many strengths; in particular, our strong focus and unparalleled scale. Through our growing International business and GLS, we have an excellent platform to grow and expand overseas.

Shortly after I became Group CEO, I commissioned a review to: (a) assess the productivity and efficiency opportunities available to us under the 2018 Agreement; and (b) better understand if our UK network was equipped to handle the ever-growing number of parcels – large and small. Our review has been about how we can 'future proof' our UK business – never forgetting the importance of letters – as e-commerce and other societal changes profoundly impact how we all go about our daily lives.

The backdrop to the commencement of our review was challenging. In recent years, the profits generated by our UK business have been in decline and our costs have increased. Our productivity improvement has slowed appreciably due to the absence of both new working tools and network enhancements. In an unscheduled trading update in October 2018, we reported a very disappointing UK productivity performance and a significant reduction in our cost avoidance target. Our share price performance has been negatively impacted by these factors, and others. As a shareholder myself, I understand the disappointment other shareholders, including postmen and women, feel.

From 2019-20, to support the delivery of our strategic goals, including the investment necessary to transform our UK business, and as part of our prudent approach to balance sheet management and maintaining our investment grade rating, our policy is for a full year dividend underpin of 15.0 pence per share, which may be supplemented by additional payouts in years with substantial excess cashflow. The dividend is expected to be covered by cumulative trading cashflows over both three and five years.

Royal Mail is one of the most widely held stocks in the FTSE. The Board appreciates the support of our shareholders, including our postmen and women who have received Free Shares. We very much understand the importance of the dividend to all our shareholders. Our decision to rebase the dividend and change the policy is not one that we have taken lightly. In doing so, we have sought to find the appropriate balance between investing in the future sustainability of our business, and shareholder returns.

In line with our current dividend policy, we are proposing a final dividend payment of 17.0 pence per share, subject to shareholder approval at the 2019 AGM. This represents a four per cent increase in the full year dividend to 25.0 pence per share (2017-18: 24.0 pence per share).

The review of our UK business was informed by some of the key features of our UK business model. Ongoing structural decline in letters is a reality we know only too well. While we expect to handle many more parcels in the years to come, work we commissioned indicates we should expect UK domestic letter volumes to fall by about 26 per cent over the next five years or so[11]. We forecast UK addressed letter volumes will decline by five-seven per cent in 2019-20, returning to our medium-term rate of four-six per cent per annum (excluding political parties' election mailings) from 2020-21, as GDP recovers and the impact of GDPR diminishes. More broadly, Royal Mail's business performance remains closely aligned to UK economic growth. We assume that GDP growth will remain below average in the near-term, and return to a typical growth rate in the medium-term.

At the heart of our renewed Group strategy is a five-year 'turnaround and grow' plan for the UK business. This transformation is vital. We will invest to change and grow. It is about a focus on efficiency and productivity through a range of digitally-enabled, new work tools. Handling larger and small parcels more efficiently and effectively through an enhanced UK network is another key part of the transformation. We will be able to do that through a range of targeted investments, particularly now the overall cost of parcel automation is coming down as the technology gets better and better. Royal Mail's unit cost for handling large and small parcels will reduce. We will be able to accept parcels at all our new parcel hubs (see below) late in the night and in the early hours of the morning from large e-retailers. We expect that our network extension will facilitate more UK e-commerce growth and increase the demand for our parcels services.

We know this is a demanding change programme. It will be carefully sequenced with a foundation period, including parcels automation, in our existing Mail Centres, followed by the embedding of the new work tools across our UK operations and the deployment of the new network design. We have already informed our unions about it. We are committed to working through these changes - including new ways of working and new trials and more flexibility - with them. Given the major cultural shift underway in UK society – more e-commerce and

11 The Outlook for UK letter volumes to 2028, PwC, May 2019

therefore fewer letters and more parcels – it is very important that Royal Mail changes too. Change underpins our future, with the absence of major industrial action a key turnaround assumption.

1. 'Turnaround and grow' our UK business

Backdrop and shape of the transformation programme.

Our last major transformation programme, which delivered significant benefits, concluded in 2015. In recent years, our annual productivity improvement has been modest: one per cent on average over the last two years. Our UK costs have continued to grow with frontline pay, with an increase of two per cent on last year.

The 2018 Agreement brought significant financial benefits to the Company in relation to our pension arrangements. In particular, the agreement to close the Royal Mail Pension Plan to future accrual on 31 March 2018 avoided an expected increase in annual cash contributions to around £1.2 billion: an unaffordable amount. However, an analysis of the productivity and efficiency opportunities under the Agreement showed that the cost of the deal is significant. There needs to be a step change in the pace and focus of the initiatives we deploy to fund it, and a greater focus on day-to-day operational excellence. Both of these themes are at the heart of the five-year transformation programme we are announcing today. This integrated, cross-functional transformation programme is expected to deliver a cumulative productivity improvement of 15-18 per cent over the next five years, weighted to the latter years of the plan. In addition, we expect to be able to deliver cumulative cost avoidance of around £1 billion over the life of the plan.

The turnaround – which encompasses productivity initiatives and the network extension (see below) – will be carefully sequenced. As many businesses know, consistently delivering major productivity gains is never easy. In the early years, we will lay the foundations for change. This will include rolling out parcels automation, for example, in our existing Mail Centres. About 12 per cent of our UK parcels are machine sorted. Our objective is to increase that to over 80 per cent within five years. This has obvious productivity benefits.

In the second stage of the transformation, we will build our extended network, embed our new working tools and harvest the main benefits of the programme. The necessary sequencing of the main elements of the turnaround means that significant investment will be needed in the early years, with many of the benefits flowing through in the latter years of the plan. In the final phase, we will roll out and run our extended UK network.

1a) A renewed focus on productivity: operational excellence and key new work tools.

Business as usual productivity improvements will be an important part of our targeted productivity gains. The main focus will be on delivery and processing. Our new Operations organisational structure - effective from 1 April 2019 – is deliberately designed to drive up day-to-day productivity gains. Service Delivery Leaders now have responsibility for delivery and processing in dedicated geographical areas, providing focus and accountability.

Our assessment found that the operational direction set out in the 2018 Agreement is right: more digitally-enabled work tools enabling us to better align resource to workload, a key factor in a genuinely people-driven business. Three key tools – Automated Hours Data Capture, PDA Outdoor Actual and Resource Scheduler - will enable us to allocate duties and tasks based on reliable management information. Our workplace will be a fairer one too, as a result. A key principle, benefiting the Company and colleagues, will be operationalised through this new technology: resourcing to workload, with a data driven approach to people management. There will, of course, be other initiatives, particularly improved delivery methods, including reducing the amount of time spent in Delivery Offices on sorting items. There will also be important enabling prerequisites put in place, including strategic workforce planning, greater labour flexibility and better workflow forecasting. We have held a considerable number of discussions with our unions about the new work tools. We have developed guidelines on how data will be used to manage the operation and for our people. We will proceed in line with our plan and existing agreements. Any changes in flexibility to maximise the use of technology will be discussed with our unions.

The turnaround will be challenging to execute. Given the major shift underway in UK society – more e-commerce and, therefore, fewer letters and more parcels – it is very important we change too. Change underwrites our future. The transformation programme ensures Royal Mail will continue to be one of the UK's biggest employers. We anticipate an hours reduction of around three per cent per annum. We are committed to working carefully and considerately with our unions and our colleagues in relation to the impact on them of our transformation programme. We have a good track record of delivering change sensitively through natural turnover, redeployment and voluntary redundancy wherever possible. In line with current agreements, we will continue to deliver change without compulsory redundancies.

1b) Extending our UK network to handle small and larger parcels more efficiently and effectively. This includes a unit cost reduction for both, and significantly enhancing our next day parcel proposition.

Our review found that our existing network has many strengths. We aim to preserve them. It provides us with good economics, particularly in letters and small parcels, with the latter accounting for most of our parcel volumes. The review established that our network can be enhanced to handle the growing number of next day and larger parcels, including our current reliance on manual sortation and a two-sort approach. Having assessed the models adopted by other countries, there is no "one size fits all" network design. Our approach is to therefore seek the best of both worlds. This means maintaining our existing network for letters and small parcels, and extending our network to handle next day and larger parcels more cheaply and more competitively.

Our network extension is timed to coincide with a strategically important period for the UK parcels market. We expect addressable UK parcel market volume growth of four-five per cent a year[12]. We are targeting revenue growth of over five per cent CAGR. Parcels generated by UK

[12] Triangle/RMG UK Fulfilment Market Measure; RMG analysis

retailers will be a key growth area for us. Royal Mail's own view is that small (less than 2kg) parcels will continue to grow at above the market rate, while parcels at the larger end of the volumetric scale will grow at around the market rate. Within all size categories, next day parcels are expected to significantly outpace growth in other delivery time categories.

A range of consumer and e-retailer initiatives will launch in the next 12 months. They will include the single biggest repurposing of our postbox network for over 160 years: we will introduce c.1,400 parcel postboxes across the UK. In addition, we will begin to collect returns – a fast-growing category – from consumers at their homes and offer in-flight redirections for individual parcels. The value of online returns is expected to increase by more than 27 per cent over the next five years; clothing and footwear is forecast to account for almost £7 in every £10 of goods returned[13].

Today, parcels of all sizes move through our network in the same way, from collections to our Delivery Offices. This approach does not deliver the appropriate efficiency gains for the following reasons: a) the current reliance on manual sortation is not scalable; b) there is insufficient capacity in the existing Mail Centres to handle growing numbers of large parcels; and c) the current two sortation approach entails slower delivery and limits our later acceptance time capabilities. The new, fully-automated parcels hubs will ensure highly efficient sortation of parcels.

In addition, the dedicated processing of larger items will also enable us to handle smaller parcels in a more efficient way. Taking these together, we expect a unit cost reduction in the handling of small and larger parcels. Finally, the combination of dedicated parcel hubs and separate van delivery for larger and later posted items, will significantly enhance our next day parcel proposition. We believe this to be an important strategic consideration, given the growing importance of next day delivery in our industry.

The main elements of the network extension are as follows. The continued combined delivery of letters and small parcels is a key design principle. We estimate that we visit around 60 per cent of UK delivery points each day. Our review confirmed the compelling cost advantages of joint delivery. Three new automated parcel hubs will be located close to major shippers. They will handle our larger parcels, tracked items and later posted items. Letters and small parcels will continue to be processed in our existing Mail Centre estate. Our thinking includes separate van delivery for larger and later posted parcels, routed through potentially 200-300 of our existing, larger Delivery Offices. We will inform our unions on the strategy, detailed design and deployment, including a trial for the separate van delivery. The trial will inform the outcome. The delivery of letters and most small parcels will remain unchanged through our existing Delivery Office network.

Putting all our domestic and our international initiatives (see below) together, we expect to transition to being a parcels-led business in five years, with an even greater emphasis on standardised processes to drive efficiency gains. So, in 2023-24, we anticipate that around 70 per cent of Group revenue will come from parcels and 30 per cent from letters. More broadly, Group revenue is targeted to have increased from £10.4 billion in 2018-19 to around £12 billion in 2023-24.

Following the deployment of the enhanced network and, in a major increase in delivery frequency for consumers and SMEs, we will introduce two deliveries a day in most parts of the country from 2023 onwards. Firstly, the usual letters and small parcel delivery. Secondly, the delivery later that day of large parcels that have been ordered online, including in many instances the night before. We will continue to offer customers the convenience of visiting our Customer Service Points, which, together with the Post Office, represent the UK's largest parcels pick up and drop off network.

2. 'Scale up and grow' GLS

GLS will be a key driver of our strategic ambition to become a parcels-led, more balanced and more diversified international business with a strong presence in the UK.

GLS is one of the largest, ground-based deferred parcel networks in Europe. It also has a growing presence in the Western US and Canada. Our strategy is designed to ensure that GLS builds on its strong, 30-year track record, making a major contribution to the Group's product and geographical diversification. By illustration, GLS revenue grew from £1 billion in 2001-02 to £3 billion in 2018-19, underlining the strength of its business model. There is a specific focus on improving performance in the US, France and Spain. We are pursuing our previously-announced plans to integrate GSO and Postal Express in the US and transition them to our proven business model. Improvement plans in France focus on quality and targeting profitable segments. GLS Spain is making progress with the integration of Redyser, but it is taking longer than anticipated. Together, these markets account for around 20 per cent of GLS revenue. Across GLS, management's focus will be on profitable revenue growth, including focused yield management. Selective acquisitions will be combined with a continued focus on organic growth. The Company's balanced customer portfolio of medium and large companies – of whom none represent more than one per cent of GLS group revenue – is a major advantage.

GLS is targeting revenue of around €4.5 billion in 2023-24, compared with €3.3 billion in 2018-19. The Company's extensive European coverage, including strong, entrepreneurial, local management and partnerships will play a key role. So too will the growing importance of international B2C volumes as retailers and marketplace platforms expand their cross-border offerings. GLS is well placed to benefit from growing cross-border parcels, which currently account for around 20 per cent of its revenue. International shipments have grown in recent years. GLS will enter the small parcel market, working with Royal Mail International to improve its export offering to Europe and North America (see below).

B2B, currently 60 per cent of volume (2017-18: c.55 per cent), will continue to be at the heart of the GLS business model. We will continue to focus on quality and core economics, like high drop density and a balanced customer portfolio. Selective growth in B2C (40 per cent of volume) will be pursued. Here, a margin led approach will remain in place, coupled with the provision of value-added services. The GLS

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13 GlobalData Online Returns in the UK, 2018

ParcelShop network – currently around 23,000 across Europe – will be selectively expanded to enhance customer convenience. In Italy, many GLS small depots are already close to city centres and are open on Saturdays for customer pick-ups.

A focus on pricing to support revenue growth and to offset costs will be a key part of the GLS strategy. Prices will be increased where appropriate to improve profitability and offset cost pressures like tight European labour markets. This will include the optimisation and introduction of new service fees, like residential delivery fees: they are currently, for example, in place at GLS Denmark.

Combined with an emphasis on network optimisation, these levers will underpin GLS's adjusted operating profit margin, which we expect to be in the range of six-seven per cent per annum.

3. Enhancing our cross-border proposition

Royal Mail Group currently generates combined revenue of around £1.7 billion from its cross-border parcel and letter business. The parcels market is large, global and growing. For example, the proportion of UK adults purchasing online cross-border has increased substantially from 28 per cent in 2013 to 43 per cent in 2017[14]. It is an attractive growth opportunity for us, centred around three key geographies: Europe, North America and Asia. At a product level and based on volume, deferred parcels (65 per cent) and small parcels (12 per cent) predominate; express parcels account for about 23 per cent. This profile matches the Group's focus on deferred (GLS) and small parcels (Royal Mail International).

Our cross-border strategy will play to our strengths and is focused on deferred and small parcel shipments. Royal Mail will provide GLS with access to the lightweight small parcel segment, where national postal operators, given their final mile networks, usually have a cost advantage compared to other operators. GLS is currently not active in the segment (below 2kg). GLS will enter the market through Royal Mail and expand its service proposition accordingly.

We see a significant market opportunity for Royal Mail International to grow its share of the UK export parcels market. Growth will be driven by the highly developed and sophisticated UK e-commerce market and increased purchasing by overseas consumers of goods from UK online shopping sites. Royal Mail International has a very limited presence through Parcelforce Worldwide in the larger parcel export market (above 2kg). By combining the Royal Mail International and GLS network propositions, the 2kg weight restriction will be removed gradually, starting with key Royal Mail account customers. Through GLS, a weight range of up to 30kg will be available, as well as value added services, including faster delivery, tracked and signed for.

The strong combined European network of Royal Mail and GLS is a value add for import customers. Royal Mail and GLS are targeting to grow volume coming from Asia-Pacific. The Asia-Pacific market is the fastest growing cross-border e-commerce market globally. The GLS and Royal Mail network will also connect Europe with GLS North America (and vice versa) to offer tracked services. In fact, GLS North America is already delivering for Royal Mail on the US West Coast and in Canada. Connected networks will be a key theme underpinning our growing cross-border proposition.

Delivering our future together

Our turnaround plan is challenging, stretching and ambitious. We have changed before – many times in fact – during our 500-year history. Our ambition is to build a parcels-led, more balanced, more diversified international business. At the heart of our strategy is a 'turnaround and grow' plan for our UK business. Alongside our focus on the UK, we will 'scale up and grow' GLS and enhance our cross-border proposition. We therefore expect to deliver an adjusted Group operating profit margin[15] of over four per cent in 2021-22, increasing to over five per cent in five years' time.

In my first year as Group CEO, I have been impressed by the continued commitment and dedication of all our people. Royal Mail is a business made great by its people. Our plans are ambitious. I am confident we have the right team to successfully execute them. I thank my colleagues, and all our stakeholders, for their commitment to this Company. I look forward to the coming years as we change and transform for the benefit of all our stakeholders.

Rico Back
Group Chief Executive Officer
21 May 2019

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[14] Eurostat ICT Usage in Households and Individuals 2017

[15] Adjusted Group operating profit will include the impact of voluntary redundancy and project costs (previously categorised as transformation costs).

BUSINESS REVIEW 2018-19

This section reviews our business, financial and operating performance for the full year to 31 March 2019 on an adjusted 52 week basis. Our reported results are set out in the 'Group' section of the Financial Review on pages 16-39. Its structure reflects our previous strategic framework, which was based on three strategic priorities: winning in parcels; defending letters; and adding value and expanding our networks. This is the last year that we will review performance against these priorities, as we have a new strategic framework and approach (see the CEO Review on pages 9-12).

Reported Results

Group revenue increased by £409 million. This was largely due to the 53rd week in UKPIL and higher parcels revenue in GLS and UKPIL, which more than offset the decline in UKPIL letters revenue. Operating profit before transformation costs increased by £238 million, largely due to the reduction in the IAS 19 pension charge in UKPIL of £371 million, following the closure of the RMPP to future accrual in its previous form from 31 March 2018. Operating specific items increased by £124 million, largely due to the impact of the impairment of the GSO and Postal Express businesses in GLS and the accounting consequences of the purchase of a further buy-in insurance policy for the Royal Mail Senior Executives Pension Plan (RMSEPP).

Group operating profit increased by £94 million to £160 million. Profit before tax increased to £241 million, of which UKPIL accounted for £160 million (2017-18: £39 million) while GLS accounted for £81 million (2017-18: £173 million). Basic earnings per share decreased to 17.5 pence.

Adjusted Results

It has been a challenging year. Trading conditions in the UK, including but not limited to the impact of GDPR and ongoing economic uncertainty around Brexit, have been difficult. Tight European labour markets created margin pressure for all delivery operators, including GLS. We were very disappointed to announce in October 2018 that we would not deliver our productivity improvement and cost avoidance targets. This was due to the after effects of the industrial dispute, delayed implementation of cost avoidance projects and the complexity of implementing elements of our Agreement with CWU. It is important to note that, as expected, our performance improved in the second half of 2018-19. Productivity in collections, delivery and processing improved to 0.9 per cent; an improvement, but not where we want to be.

Adjusted UKPIL operating costs before transformation costs[16] increased by two per cent on an underlying basis, driven by an increase in both people and non-people costs. As previously announced, we were disappointed, following our poor productivity performance, to have to lower our cost avoidance target from £230 million to £100 million for 2018-19. We have achieved our revised target, with a performance of £107 million. This reflects an improved performance in the second half. Group adjusted operating profit before transformation costs was £509 million, within our revised range of £500-530 million. Turning to our overall revenue performance, at the Group level, revenue increased by two per cent. UKPIL revenue was flat. A six per cent decline in total letter revenue (mitigated by business mail price increases) was offset by the strongest growth in parcel revenue since 2013-14. Adjusted UKPIL operating profit margin after transformation costs declined from 5.1 per cent to 2.6 per cent. GLS revenue rose eight per cent on an underlying basis. Volumes were up five per cent. Adjusted GLS operating profit margin of 6.1 per cent was in line with our expectations of over six per cent.

Winning in parcels

In 2018-19, we handled around 1.3 billion parcels in the UK. The addressable parcels market has, according to our estimates, returned to its medium-term growth rate of four-five per cent per annum[17]. Our parcel volume growth in key areas has outpaced the addressable market growth rate for some years, including 2018-19, when our combined Royal Mail Tracked 24®/48® and Tracked Returns® volumes grew by 24 per cent.

Customers – both senders and recipients – rate us highly on trust and reliability. Royal Mail is the UK's most trusted delivery provider. Three out of four people trust Royal Mail to deliver their online purchases[18].

GLS provides the Group with significant geographical diversification and has a leading position in its major markets. More than half its volumes (60 per cent) are generated by B2B parcels (2017-18: c.55 per cent); 40 per cent comes from B2C traffic. During the year, GLS delivered 634 million parcels. Revenue growth was achieved in the majority of GLS' developed European markets, with its largest markets (Germany, France and Italy) contributing 57 per cent of the total. There was strong, double digit revenue growth in all developing/emerging European markets. GLS is also underpinning its margins by optimising both its line haul and last mile logistics operations. This includes aligning cross-border and domestic line haul networks and developing route optimisation software tools for delivery partners.

In September 2018, we announced the acquisition of Dicom Canada for a total consideration of C$360 million (c. £212 million). Canada is the world's tenth largest economy[19], with Ontario and Quebec – Dicom's two key markets – accounting for two thirds of the Canadian Courier, Express and Parcel market. Since its acquisition, Dicom's performance has been in line with our expectations. In our Half Year

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16 For further details of reported results, adjusted and underlying Alternative Performance Measures (APMs) used in the Financial Report for the full year ended 31 March 2019, including reconciliations to the closest IFRS measures where appropriate, see section entitled 'Presentation of results and Alternative Performance Measures.' Movements are presented on an underlying basis.

17 Triangle/RMG UK Fulfilment Market Measure; RMG analysis

18 Delivery Matters, 2018; RMG analysis

19 The World Bank GDP ranking, 2017

2018-19 Results, we recognised a £68 million impairment against goodwill and other assets related to the acquisition of GSO and Postal Express in the Western US. The impact of local cost pressures, refocusing the customer base, transitioning to a new business model mean that expected synergies and benefits will take longer to be realised.

Turning to important broader considerations, the shape of the future relationship between the UK and the EU continues to be unclear. It is therefore not appropriate, at this stage, to set out with any degree of accuracy the impact of various Brexit eventualities on the Group. We believe the immediate risk to our domestic operations is low. We are working with key suppliers to ensure our supply chain remains secure. Internal procedures are in place to monitor and manage ongoing risks. As previously outlined, the main issues for the Group are expected to relate to any potential economic downturn and changes associated with customs and VAT processing.

Defending letters

Letters continue to be important to Royal Mail, accounting for 51 per cent of UKPIL revenue. Letters are a powerful communications tool, with many advantages compared with social media and email. For example, recent research found that letters have a 35 per cent better recall rate among consumers compared to social media, or 49 per cent better compared to email. They are also a proven driver of sales for businesses: around one third of addressed advertising mail generates a commercial action[20].

While addressed letter volumes are in structural decline, the UK mail bag continues to be one of the biggest in Europe. After Germany, the UK currently has the most letters per capita (151 per annum) in Europe. For some years, addressed letters have declined within our forecast four-six per cent range, primarily driven by e-substitution. This year, however, while the rate of e-substitution is broadly unchanged, addressed letter volumes have declined by eight per cent (excluding political parties' election mailings), in line with our updated expectations. Marketing mail revenue declined by ten per cent, largely reflecting the impact of GDPR.

During the year, we introduced a number of customer-led initiatives. For marketing mail (around one third of addressed mail volumes), we launched a partially addressed product for advertisers, which enables brands to target potential customers without using third party data. A new magazine subscription product for publishers provides them with more notice of any price changes, giving them greater certainty when they set subscription levels for their customers.

In February 2019, we announced that First Class and Second Class stamp prices would increase from 25 March 2019, to 70 pence and 61 pence, respectively. Royal Mail's stamp prices are among the best value in Europe compared with other postal operators. In October 2018, we announced an average nine per cent increase in wholesale business mail pricing, which affects companies like banks and insurance companies. We know many households and companies are finding it hard in the current economic environment. We considered these changes very carefully. They are necessary to help ensure the sustainability of the Universal Postal Service.

In August 2018, we announced that we would appeal Ofcom's competition law infringement decision. The decision, and fine of £50 million, relates to a price change announced in 2014 – never implemented or paid – under our Access Letters Contract. The announced price change had been robustly stress tested by Royal Mail under competition law and the relevant regulatory framework. Royal Mail has now lodged an appeal with the Competition Appeal Tribunal to have both Ofcom's decision and fine overturned. No fine is payable until the appeals process is exhausted.

Adding value and improving our network

GLS continues to innovate in processing and delivery, including initiatives to pursue targeted growth in B2C parcels. Customers of GLS Germany can view expected delivery times on almost all parcels. The Company has introduced a letterboxable parcel delivery service, offering customers a fully trackable service and 24-hour delivery. Items can be delivered first time, even if no one is at home to receive them. It has enhanced its parcel tracking service, with five separate pictograms to show delivery progress.

GLS' customer offering is built upon the customer convenience and flexibility of one of the largest, ground-based deferred parcel delivery networks in Europe. This includes a presence in 41 countries across Europe, around 26,000 delivery vehicles and around 23,000 ParcelShops for customer collection. Following the acquisition of ASM in 2016-17, GLS became one of the biggest B2C delivery players in Spain. Its Spanish network of more than 450 agents means that it is close to business customers and parcel recipients. GLS Italy's diverse fleet, including e-vans, e-bikes, e-scooters and diesel vans can be flexed to suit the needs of the local area. GLS is harvesting the growth in cross-border e-commerce. FlexDeliveryService, available in 21 European countries, makes it easier for online shoppers to receive goods purchased abroad. Anyone shopping beyond national borders in linked countries can choose from a range of delivery options.

In July 2018, Parcelforce Worldwide launched an online dashboard enabling sending customers to track the delivery of their UK and International parcels. It shows which items have been delivered and which are in transit, helping businesses identify and monitor priority customers where extra focus might be required. In October 2018, Parcelforce Worldwide opened its new South East Processing Centre (SEPC) in Hatfield, Hertfordshire. The 60,000 sq. ft. operation uses the latest parcel handling and processing technology. It can process more than 50,000 parcels a night – increasing to 60,000 in peak periods.

With the UK's largest "Feet on the Street" network of around 90,000 postmen and women, Royal Mail plays a key role in keeping carbon emissions low. Across our UK fleet of around 48,000 vehicles, including around 2,600 trailers, we are committed to reducing our carbon footprint. Alongside the introduction of 100 electric vans in a number of locations in 2017-18, we have launched a trial of zero-emission e-Trikes in Stratford (East London), Cambridge and Sutton Coldfield. SEPC (see above) will help to reduce Parcelforce Worldwide's carbon footprint for parcels that can be processed locally within the South East.

[20] JICMAIL, Kantar TNS, Q2 2017 – Q1 2018

Becoming more digitally-enabled

In October 2018, we launched a new mobile app to help consumers track their items from their smartphone. With a reference number, parcel recipients can check the progress of deliveries. They can book a redelivery if it has not been possible to deliver an item, or arrange for a redelivery to their address, neighbour or a local Post Office – all via the app. Amazon Alexa was launched on the app in April 2019, and allows you to quickly track the status of your Royal Mail deliveries, by providing Alexa with your Royal Mail tracking number. This is available through all Alexa voice enabled devices. More enhancements will make it even easier for recipients to manage deliveries.

In June 2018, we launched a new shipping tool designed to help larger businesses and retailers fulfil complex shipping needs. "Pro Shipping" makes it simpler for retailers to manage orders and returns across distributed sites. It complements the suite of in-house shipping tools to ensure: the easy management of large lists of recipients or customers; the ability to print outward and return labels simultaneously; and multiple user access from different locations and the automatic printing of customs documentation. Alongside the shipping tool, Royal Mail API Shipping makes it easier for firms to integrate their systems with Royal Mail. Both tools have been developed by Intersoft, a software development company acquired by Royal Mail in 2016.

Our workforce

We provide high-quality jobs and industry leading employment conditions. We are making Royal Mail a fairer place to work and providing equal employment opportunities for all. In the UK, our Annual Gender Pay Gap Review 2018 showed that, on a mean basis, women are paid 0.6 per cent more than men. On a median basis, men are paid one per cent more than women, due to men selecting more work that qualifies for allowances, like shift work during the evening or at night. We pay bonuses equally to men and women on a median basis. The bonus gap is 22.7 per cent in favour of women on a mean basis, compared to 9.1 per cent in the previous year. We have also seen an increase in the number of women hired across Royal Mail. The Times has named Royal Mail a Top 50 Employer for Women for the sixth consecutive year.

Our Agreement with the CWU secured a fair and sustainable pension solution for the Company and its people. Regrettably, it was necessary to close the Royal Mail Pension Plan (RMPP) to future accrual in its previous defined benefit form on 31 March 2018. Without this action, we could not have avoided an expected increase in cash contributions to around £1.2 billion every year – an unaffordable amount. From 1 April 2018, transitional arrangements have been in place. RMPP members participate in a Defined Benefit Cash Balance Scheme. Employees receive a total contribution from the Company of 15.6 per cent of pensionable pay towards their retirement benefits and life assurance. Members of the Defined Contribution Plan have benefitted from an increased contribution from the Company.

Working with the CWU, we are lobbying Government to make the necessary legislative and regulatory changes to enable the introduction of a Collective Defined Contribution (CDC) pension scheme. We were pleased to see that in March 2019 that, after a consultation, HM Government confirmed that primary legislation would be brought forward to introduce CDC pensions as soon as Parliamentary time allows. This is an important step towards allowing the introduction of a CDC scheme for our employees as soon as possible.

In March 2019, we confirmed a two per cent pay award for CWU grade employees. The award, effective from 1 April 2019 onwards, was specified in the Agreement, alongside the prior five per cent award from October 2017 – March 2019. In October 2018, we confirmed the implementation of the first hour's reduction as part of the Shorter Working Week. Subsequent hours off the working week are subject to a joint evaluation of factors including ongoing efficiency improvements, implementation of changes from trials in the operation and technological changes.

We saw an increase in our employee engagement score to 60. Our annual employee engagement survey also measures our employees' pride to work for Royal Mail, which increased to 70, and how likely our people would be to recommend us as an employer to friends and family, up 1 point to 60. Employee turnover remained low at 7.2 per cent, compared to the UK average of 23 per cent.

Customer focus

We are making our services simpler and more flexible to remain competitive. In August 2018, we announced the trial of 30 new parcel postboxes to support growth in e-commerce. The postboxes allow SMEs and marketplace sellers to post pre-paid parcels as they currently post letters. 17 parcel postboxes were trialled in Northampton and 13 in Leicester. Our Mail Centres accept parcels from e-retailers up to 1.30am for next day delivery.

In March 2019, we noted Ofcom's provisional decision not to impose a financial penalty with respect to its investigation into our Quality of Service performance for 2017-18. Ofcom itself said that Royal Mail's performance was disrupted by certain events beyond its control – in particular, the severe weather in February and March 2018. We are disappointed that our regulatory First Class Quality of Service performance for 2018-19 was 91.5 per cent, below the target to deliver 93 per cent of this mail the next working day. Second Class Quality of Service met the regulatory target. We delivered 98.6 per cent of this mail within three working days, against a target of 98.5 per cent. We take our commitment to delivering a high quality service very seriously. We are redoubling our efforts to tackle quality issues where they arise.

Digital enhancements have enabled us to introduce a range of improved products and services for customers. We offer customers a two-to-four hour estimated delivery window for parcels, shared the day before delivery. Customers who are not in can request delivery to neighbour or a digital Something for You card. Our mean business customer satisfaction score was 78, in line with our performance in 2017-18. Our Net Promoter Score, which measures the loyalty of our business customers, was 39 in the period, down from 40 in 2017-18.

FINANCIAL REVIEW

Reported results and Alternative Performance Measures (APMs)

Reported results are prepared in accordance with International Financial Reporting Standards (IFRS). Reported results are set out in the section entitled 'Presentation of results and Alternative Performance Measures' (APMs) and the audited Financial Statements.

In addition to reported results, the Group's performance in this Financial Review is also explained through the use of APMs (including adjusted results) that are not defined under IFRS. Management considers that these measures provide a more meaningful basis on which to analyse business performance. They are consistent with the way that financial performance is measured by Management and reported to the Board.

The APMs used are explained in the section entitled 'Alternative Performance Measures (APMs)' and reconciliations to the closest measure prescribed under IFRS are provided where appropriate. The analysis of underlying movements in adjusted results is provided on a 52 week basis and is set out in the paragraph entitled 'Underlying change' in the sections entitled 'Group Results' and 'Alternative Performance Measures (APMs)'. Commentary is provided on both reported and adjusted results.

Results on 53 and 52 week basis

The Group and UKPIL reported results are for the 53 week period to 31 March 2019. In order to provide a meaningful comparison of revenue and costs with the prior year, we are also presenting the Group and UKPIL income statements to operating profit after transformation costs on an adjusted 52 week basis. The adjusted 52 week 2018-19 results are derived by removing an estimate of the 53rd week's revenue and incremental costs. All comparisons between 2018-19 and 2017-18 income statements to operating profit after transformation costs are on a 52 week basis unless otherwise stated. The GLS financial year is the 12 months to 31 March 2019.

Further details on the calculation of the 52 week adjusted results can be found in the 'Consolidated adjusted 52 weeks results' paragraph in the section entitled 'Presentation of results and Alternative Performance Measures'.

UK PARCELS, INTERNATIONAL & LETTERS (UKPIL)

Reported results

Summary results (£m)	**Reported 53 weeks March 2019**	Reported 52 weeks March 2018
Revenue	**7,732**	7,615
Operating costs	**(7,435)**	(7,570)
Operating profit before transformation costs	**297**	45
Transformation costs	**(133)**	(113)
Operating profit/(loss) after transformation costs	**164**	(68)
Operating specific items	**(92)**	(43)
Operating profit/(loss)	**72**	(111)
Operating profit/(loss) margin	***0.9%***	*(1.5%)*

The detailed UKPIL reported results are set out in the paragraph entitled 'Segmental reported results'. UKPIL reported revenue was £117 million higher than in 2017-18. This was largely due to £137 million of revenue in relation to the 53rd week.

Operating profit before transformation costs increased to £297 million. This was largely due to the reduction of the International Accounting Standards (IAS) 19 pension charge to £628 million (2017-18: £999 million) following the closure of the Royal Mail Pension Plan (RMPP) to future accrual in its previous form from 31 March 2018. Operating costs were also impacted by higher people costs (excluding pension costs), distribution and conveyance and infrastructure costs. Further explanations of costs are set out in the paragraph entitled 'Adjusted operating costs before transformation costs' in this section.

Operating profit after transformation costs was £164 million, compared with a loss of £68 million in the prior year. Operating profit also included £35 million of profit in relation to the 53rd week. Operating specific items increased by £49 million, largely due to the accounting consequences of the purchase of a further buy-in insurance policy of £64 million for the Royal Mail Senior Executives Pension Plan (RMSEPP) on 21 September 2018. Further details are set out in the paragraph entitled 'Pensions'. UKPIL generated an operating profit of £72 million for the year, £183 million higher than 2017-18.

Adjusted results

The Group makes adjustments to reported results under IFRS to exclude specific items and the IAS 19 pension charge to cash difference adjustment as set out in the paragraph entitled 'Specific items and pension charge to cash difference adjustment'. We are presenting the 2018-19 adjusted results on a 53 and 52 week basis.

Summary trading results (£m)	Adjusted 53 weeks March 2019	**Adjusted 52 weeks March 2019**	Adjusted 52 weeks March 2018	Underlying change[21]
Letters and other revenue[22]	2,963	**2,909**	3,051	(5%)
Marketing mail[22]	1,012	**994**	1,101	(10%)
Total letters[22]	3,975	**3,903**	4,152	(6%)
Parcels	3,757	**3,692**	3,463	7%
Revenue[22]	7,732	**7,595**	7,615	Flat
Operating costs before transformation costs	(7,365)	**(7,263)**	(7,112)	2%
Operating profit before transformation costs	367	**332**	503	(32%)
Transformation costs	(133)	**(133)**	(113)	18%
Operating profit after transformation costs	234	**199**	390	(48%)
Operating profit margin after transformation costs	*3.0%*	***2.6%***	*5.1%*	*(240bps)*
Letters volumes (m)				
Addressed letters	10,455	**10,266**	11,269	(8%)
Unaddressed letters	2,928	**2,880**	3,109	(7%)
Parcels volumes (m)				
Royal Mail	1,247	**1,224**	1,132	8%
Parcelforce Worldwide	100	**99**	98	1%
Total	1,347	**1,323**	1,230	8%

Revenue was flat on an underlying basis. Total parcel revenue was up seven per cent, while total letter revenue was down six per cent on an underlying basis.

Our UK parcels business is performing well. Total parcel volumes increased by eight per cent and revenue increased by seven per cent on an underlying basis. Royal Mail domestic account parcels volumes, excluding Amazon, were up eight per cent as we won new customers and gained more traffic from existing customers. Royal Mail Tracked 24®/48® and Tracked Returns® volumes, our key e-commerce products, grew by 24 per cent. Our propositions targeting fast growing sectors and major new features like estimated delivery times supported this growth. Strong Amazon parcel traffic growth resulted in higher volumes of letterboxable parcels. We benefitted from new volumes due to the extension of our customer Latest Acceptance Times (LATs) for our Tracked 24® product.

Our international parcels business continued to benefit from our initiative to attract cross-border traffic, mainly from Asia into mainland Europe and the UK. This accounted for around two percentage points of the underlying parcel volume growth and around one percentage point of the parcel revenue growth in the year. We saw improved import volumes outside our cross-border initiative. Contract export volumes declined due to the competitive market. Parcelforce Worldwide volumes increased by one per cent, compared with two per cent in 2017-18, largely due to a customer withdrawing from the online retail market during the year.

Addressed letter volumes (excluding political parties' election mailings) declined by eight per cent on an underlying basis. This was in line with our revised expectation of a seven to eight per cent decline. Letter volumes, including marketing mail, were impacted by ongoing structural decline, business uncertainty and General Data Protection Regulation (GDPR). Excluding the impact of GDPR, addressed letter volume (excluding political parties' election mailings) decline would have been around two percentage points better.

We are expecting a decline of five to seven per cent in 2019-20, due to the impact of GDPR in the first quarter of the year and continued business uncertainty. Our medium-term guidance of addressed letter volume (excluding political parties' election mailings) decline of four to six per cent per annum remains unchanged.

Low average unit revenue (AUR) unaddressed letter volumes were down seven per cent on an underlying basis, reflecting strong growth in 2017-18 due to initiatives that encouraged incremental volume growth.

[21] Movements in revenue, profits and margins are shown on an underlying 52 week basis, taking into account non-recurring or distorting items such as the impact of working days in UKPIL. See paragraph entitled 'Underlying change' for further information.

[22] Stamped, metered and other prepaid revenue channels are subject to statistical sampling surveys to derive the revenue relating to parcels, marketing mail and letters. These surveys are subject to continuous refinement, which may over time reallocate revenue between the products above, and which may occasionally lead to a consequent change to this estimate.

Total letter revenue (including marketing mail) decreased by six per cent, including the impact of business mail price rises implemented in January 2019. The impact of political parties' mailings related to the General Election in June 2017 did not have a material impact on the underlying change in letter revenue in the full year. Marketing mail revenue decreased by ten per cent on an underlying basis largely due to the impact of GDPR.

Adjusted operating costs before transformation costs

(£m)	Adjusted 53 weeks March 2019	**Adjusted 52 weeks March 2019**	Adjusted 52 weeks March 2018	Underlying change[21]
People costs	(5,045)	**(4,975)**	(4,908)	1%
Non-people costs	(2,320)	**(2,288)**	(2,204)	4%
Distribution and conveyance costs	(842)	**(827)**	(798)	4%
Infrastructure costs	(826)	**(819)**	(751)	9%
Other operating costs	(652)	**(642)**	(655)	(2%)
Total	(7,365)	**(7,263)**	(7,112)	2%

Total adjusted operating costs before transformation costs increased by two per cent on an underlying basis. The single largest contributing factor was poor performance in people costs as we did not achieve the expected benefits from our business-as-usual initiatives, transformation projects and cost avoidance activities.

As a result of poor productivity in the first half, we expected our productivity improvement for the full year to be significantly below our target range of two to three per cent. Productivity in the second half was 1.9 per cent, giving a full year productivity improvement of 0.9 per cent. We achieved a 1.1 per cent reduction in core network hours as we implemented and partially absorbed the impact of the one hour reduction in the working week to 38 hours and saw a step up in operational efficiency activities in the second half. This was partially offset by an increase in variable hours during the first half, as a result of high levels of sick absence and resourcing to recover Quality of Service. Workload was 0.2 per cent lower as the decline in letters volume was only partially offset by the increase in parcel volumes.

Given the poor cost performance in the first half, our 2018-19 cost avoidance target was lowered from £230 million to £100 million. The UKPIL cost avoidance programme delivered £107 million costs avoided for the full year. The costs avoided comprised a number of initiatives, including short-term actions where we saw reductions in discretionary spend and central costs. We performed a review of our organisational structure and management roles in support and central functions, which resulted in management headcount reduction that will deliver financial benefits in 2019-20. We also achieved savings through a reduction in core network hours including partial absorption of the one hour reduction of the working week, modernisation of our Heathrow Worldwide Distribution Centre, a linehaul review, supplier contract renegotiation and rationalisation of operations management.

Adjusted people costs were one per cent higher on an underlying basis, largely due to the frontline and manager pay awards. Higher people costs in the year included the impact of high-levels of sickness-related absences and adverse weather conditions earlier in the year and additional investment in resourcing to improve Quality of Service. Bonus costs for around 10,500 eligible managers across the UK were £50 million lower as we missed our threshold profitability level. Higher volumes in Parcelforce Worldwide and the implementation of LATs for certain account parcels led to incremental people costs.

Non-people costs were four per cent higher on an underlying basis. Distribution and conveyance costs increased by four per cent on an underlying basis. This was largely driven by higher vehicle repair costs due to adverse weather at the beginning of the year and delays to the delivery of new vehicles, resulting in higher maintenance costs on older vehicles. Total diesel and jet fuel costs increased to £156 million (2017-18: £147 million) as parcel volumes were higher than expected in the second half of 2018-19. We expect diesel and jet fuel costs to be around £162 million in 2019-20 largely as a result of the expected growth in parcel volumes. Terminal dues were £6 million higher largely due to adverse foreign exchange rate movements.

Infrastructure costs increased by nine per cent. Depreciation and amortisation costs were £44 million higher. This was higher than the £10 million increase we expected. Management conducted a review of investment spend in the year resulting in changes to the investment portfolio. The depreciation charge includes £30 million of impairment costs as a result of this review. Due to the higher than expected decline in letters volumes, management reviewed the estate of letters sorting machinery and plan to decommission some of this equipment over the next three years. £12 million of accelerated depreciation has been incurred because of these anticipated changes. Technology costs increased by £21 million largely due to the implementation of data projects supporting the operations.

Other operating costs decreased by two per cent on an underlying basis largely due to the impact of the cost avoidance programme.

Adjusted operating profit before transformations cost

Adjusted operating profit before transformation costs declined by 32 per cent on an underlying basis. This was due to: the impact of GDPR on marketing mail revenues; poor performance in people costs as we did not achieve our cost avoidance target; and increased infrastructure costs.

Transformation costs

(£m)	**Adjusted 53 weeks March 2019**	Adjusted 52 weeks March 2018
Voluntary redundancy	**(46)**	(44)
Project costs	**(87)**	(69)
Total	**(133)**	(113)

Transformation costs of £133 million were lower than our expectation of around £150 million. Voluntary redundancy costs were driven by our short-term actions, which led to a reduction in management headcount across support and central functions. Voluntary redundancy costs were £2 million higher than 2017-18 but below our expectations due to the lower than expected levels of efficiencies in operations.

There was a net reduction of around 840 full-time equivalent employees (FTE)[23] to around 147,145 compared with March 2018 as we decreased variable hours. The calculation of FTEs was impacted by a one hour reduction in the working week from 39 to 38 hours. If FTEs for March 2019 were restated to reflect a 39 hour working week, the reduction in FTEs would have been around 3,795, reflecting both a reduction in variable hours and partial absorption of the one hour reduction in the working week. There was a net increase of around 1,600 employees in the year, reflecting an increase in part-time employees.

Project costs of £87 million largely comprised costs associated with initiatives supporting investments and the cost avoidance programme. The increase of £18 million was largely due to operating costs in relation to operations data projects to support future productivity improvements, investment to upgrade our IT and parcel systems and projects related to the implementation of the Defined Benefit Cash Balance Scheme (DBCBS) and development of the Collective Defined Contribution (CDC) pension scheme.

Adjusted operating profit after transformation costs

Adjusted operating profit after transformation costs of £199 million was 48 per cent lower on an underlying basis due to flat revenue and higher costs. Operating profit margin after transformation costs was 2.6 per cent, down 240 basis points compared with 2017-18 on an underlying basis.

[23] FTE numbers relate to the total number of paid hours (including part-time, full-time and agency hours) divided by the standard full-time working hours in the same year. The current year FTE is calculated on a 38 hour week basis (2017-18: 39 hour week basis).

GENERAL LOGISTICS SYSTEMS (GLS)

Reported results

Summary trading results (£m)	Reported March 2019	Reported March 2018
Revenue	**2,888**	2,557
Operating costs	**(2,711)**	(2,366)
Operating profit before specific items	**177**	191
Operating specific items	**(89)**	(14)
Operating profit	**88**	177
Operating profit margin	***3.0%***	*6.9%*

The detailed GLS reported results are set out in the paragraph entitled 'Segmental reported results'. GLS reported revenue was £331 million higher than the prior year. GLS operating profit was £89 million lower largely due to the impairment of the Golden State Overnight (GSO) and Postal Express businesses in the US, as explained in the paragraph entitled 'USA' in this section. GLS also experienced increased operating cost pressures in the year.

Adjusted results

Adjusted GLS Sterling and Euro results exclude the impact of the impairment of the US businesses and amortisation of intangible assets related to acquisitions. The adjustments made to reported results are set out in the paragraph entitled 'Specific items and pension charge to cash difference adjustment'.

Summary trading results (£m)	Adjusted March 2019	Adjusted March 2018	Underlying change[24]
Revenue	**2,888**	2,557	8%
Operating costs	**(2,711)**	(2,366)	9%
Operating profit	**177**	191	(9%)
Operating profit margin	***6.1%***	*7.5%*	*(120bps)*
(€m)			
Revenue	**3,274**	2,899	8%
Operating costs	**(3,073)**	(2,682)	9%
Operating profit	**201**	217	(9%)
External volumes (m)	**634**	584	5%

Overall, GLS delivered a good revenue performance. Volumes were up five per cent on an underlying basis, with growth in both domestic and international volumes in most markets. Volume growth moderated compared with the prior year. This was largely a result of the general competitive environment and yield management activities. Revenue increased by eight per cent on an underlying basis – three percentage points higher than volume growth – largely due to price increases and customer mix changes in several markets.

There was no material foreign exchange impact on revenue in Sterling terms. Including the impact of acquisitions, revenue was up 13 per cent. Revenue growth was achieved in most markets and from a broad customer base. The largest customer accounted for around one per cent of total GLS revenue as our customer base continues to diversify. The three major markets (Germany, Italy and France) accounted for 57 per cent of total GLS revenue. This is down from 60 per cent in 2017-18, reflecting the impact of recent acquisitions and growth in other GLS markets.

[24] Movements in revenue, costs, profits and margins are shown on an underlying basis, taking into account non-recurring or distorting items such as the first year impact of acquisitions and foreign exchange translation in GLS. Revenue from GLS acquisitions in the year was £114 million (2017-18: £105 million), which has been excluded from underlying movements. See paragraph entitled 'Underlying change' for further information.

Adjusted operating costs (£m)	**Adjusted March 2019**	Adjusted March 2018	Underlying change[24]
People costs	**(667)**	(608)	4%
Non-people costs	**(2,044)**	(1,758)	11%
Distribution and conveyance costs	**(1,803)**	(1,558)	11%
Infrastructure costs	**(169)**	(148)	7%
Other operating costs	**(72)**	(52)	24%
Total	**(2,711)**	(2,366)	9%

Total adjusted operating costs were up nine per cent on an underlying basis. People costs increased by four per cent on an underlying basis. This was as a result of higher semi-variable costs linked to volumes and higher rates of pay, due to high wage inflation and driver shortages, especially across Central and Eastern European and US markets.

Adjusted non-people costs increased by 11 per cent on an underlying basis. Distribution and conveyance costs were up 11 per cent on an underlying basis. This was driven by higher volumes and increased network costs due to higher contractor costs across the majority of GLS markets. We also incurred increased costs in the US as we transition GSO and Postal Express to a fully independent contractor model.

Infrastructure costs increased by seven per cent on an underlying basis, largely due to higher rents and rates and repairs and maintenance costs. We are also seeing higher depreciation costs as we continue to invest to increase the capacity of our network. Other operating costs increased by 24 per cent on an underlying basis, principally due to higher litigation and claims costs and the impact of provision releases in the prior year.

Adjusted operating profit

Adjusted operating profit was £177 million, nine per cent lower than 2017-18 on an underlying basis. There was no material foreign exchange impact on operating profit in Sterling terms.

Adjusted operating profit margin of 6.1 per cent was in line with our target of over six per cent. This was down by 120 basis points compared with the prior year, largely due to the ongoing cost pressures in the majority of GLS' markets, losses in France and the US and a reduction in profitability in Spain. We do not expect cost pressures to ease in the short-term. We took action through prudent price increases and a review of discretionary spend to help mitigate these cost pressures.

Germany

GLS Germany remains the largest GLS market by revenue. Revenue grew by nine per cent, driven by international volumes and improved pricing. We saw a decrease in operating profit margin due to increased cost pressures and driver shortages.

Italy

GLS Italy revenue grew by five per cent, moderating in line with our expectations. We experienced lower growth compared with the prior year due to the competitive environment, including the impact of the launch of Amazon's own logistics network in the country.

France

France remains a challenging market. GLS France revenue grew by four per cent, driven largely by improved pricing, including service fees for over-sized parcels and higher export volumes. However, operating losses increased by €5 million to €18 million (approximately £16 million).

Improvement plans in France focus on quality and targeting profitable segments. Despite the challenges in the domestic market, GLS France continues to be integral to the GLS network by supporting exports from other markets into France and allowing GLS to provide a comprehensive service across Europe.

Spain

GLS Spain revenue grew by seven per cent on an underlying basis, driven by higher international volumes. ASM has been fully integrated with GLS Spain. Integration of Redyser is proving more complex than anticipated and has resulted in network inefficiencies and one-off costs impacting profitability. An increasing proportion of domestic volumes from relatively low margin customers has also impacted profitability. We expect the integration of Redyser to be completed during 2019-20.

USA

Our US businesses, GSO and Postal Express, provide an interstate overnight parcel delivery service with full US west coast coverage, which is well positioned to serve both the B2B and B2C segments.

In Postal Express, profitability has been impacted by yield management activities to exit low margin customers. The profitability of GSO and Postal Express continues to be impacted by local cost pressures.

As well as pursuing our plans of integrating the businesses, we have accelerated the transition of the businesses to a fully independent contractor model, similar to GLS' business model in Europe. While we are making progress with our plans, the combined impact of local cost pressures, refocusing the customer base and transitioning to the new business model means that the expected synergies and benefits will now take longer to be realised.

Accordingly, we recognised a £68 million impairment against the goodwill and other assets related to the acquisition of these businesses in the first half. This was a non-cash operating specific item. The combined businesses were loss-making in the year, with operating losses of around €15 million (approximately £14 million).

Canada

On 3 September 2018, we announced the acquisition of Dicom, a Canadian parcel delivery company, for a total consideration of C$360 million (approximately £212 million). Performance has been in line with our expectations in the seven months since acquisition.

Other developed European markets (including Austria, Belgium, Denmark, Ireland, Netherlands and Portugal)

Revenue growth was achieved in the majority of GLS' other developed European markets. In particular, there was continued strong volume and revenue growth in Denmark as we continue to drive higher B2C volumes by increasing the number of ParcelShops to support growth.

Other developing/emerging European markets (including Croatia, Czech Republic, Hungary, Poland, Romania, Slovakia and Slovenia)

We saw strong, double digit revenue growth in all developing/emerging European markets. We continue to invest in our network in these countries to take advantage of their growing parcel markets.

GROUP RESULTS

Reported results

Summary trading results (£m)	**Reported 53 weeks March 2019**	Reported 52 weeks March 2018
Revenue	**10,581**	10,172
Operating costs	**(10,107)**	(9,936)
Operating profit before transformation costs	**474**	236
Transformation costs	**(133)**	(113)
Operating profit after transformation costs	**341**	123
Operating specific items	**(181)**	(57)
Operating profit	**160**	66
Non-operating specific items	**15**	71
Net finance costs	**(13)**	(16)
Net pension interest (non-operating specific item)	**79**	91
Profit before tax	**241**	212
Earnings per share (basic)	***17.5p***	25.9p

Group revenue increased by £409 million. This was largely due to the 53rd week in UKPIL and higher parcels revenue in GLS and UKPIL, which more than offset the decline in UKPIL letters revenue. Operating profit before transformation costs increased by £238 million, largely due to the reduction in the IAS 19 pension charge in UKPIL of £371 million, following the closure of the RMPP to future accrual in its previous form from 31 March 2018. Operating specific items increased by £124 million largely due to the impact of the impairment of the GSO and Postal Express businesses in GLS and the purchase of a further buy-in insurance policy for the RMSEPP.

Group operating profit increased by £94 million to £160 million. Profit before tax increased to £241 million, of which UKPIL accounted for £160 million (2017-18: £39 million) while GLS accounted for £81 million (2017-18: £173 million). Basic earnings per share decreased to 17.5 pence. A full reconciliation of reported to adjusted results is set out in the section entitled 'Presentation of results'.

Adjusted results

Group revenue

(£m)	Adjusted 53 weeks March 2019	**Adjusted 52 weeks March 2019**	Adjusted 52 weeks March 2018	Underlying change[25]
UKPIL	7,732	**7,595**	7,615	Flat
GLS	2,888	**2,888**	2,557	8%
Intragroup revenue	(39)	**(39)**	–	
Total	10,581	**10,444**	10,172	2%

Intragroup revenue represents revenue from trading between UKPIL and GLS. This was due to Parcelforce Worldwide being GLS's partner in the UK. As the amounts involved have no impact on group profit before tax and are not material, the prior year has not been adjusted.

Group revenue was up two per cent on an underlying basis, driven by parcel growth in GLS and UKPIL more than offsetting the decline in UKPIL letters revenue. Total parcel revenue continued to grow as a percentage of Group revenue, accounting for 63 per cent on a 52 week basis (2017-18: 59 per cent). The main factors impacting revenue are described in the sections entitled 'UK Parcels, International & Letters (UKPIL)' and 'General Logistics Systems (GLS)'.

[25] Movements in revenue, costs, profits and margins are shown on an underlying basis, taking into account non-recurring or distorting items such as the first year impact of acquisitions and foreign exchange translation in GLS and working days in UKPIL. See paragraph entitled 'Underlying change for further information.

Group operating costs

(£m)	Adjusted 53 weeks March 2019	**Adjusted 52 weeks March 2019**	Adjusted 52 weeks March 2018	Underlying change[25]
People costs	(5,712)	**(5,642)**	(5,516)	2%
Non-people costs	(4,325)	**(4,293)**	(3,962)	6%
Distribution and conveyance costs	(2,606)	**(2,591)**	(2,356)	7%
Infrastructure costs	(995)	**(988)**	(899)	9%
Other operating costs	(724)	**(714)**	(707)	Flat
Total	(10,037)	**(9,935)**	(9,478)	4%

Group operating costs increased by four per cent on an underlying basis. The increase in UKPIL was largely due to higher people and distribution and conveyance costs. GLS people and distribution and conveyance costs were impacted by cost pressures and higher volumes. The main factors impacting operating costs in the year are described in the sections entitled 'UK Parcels, International & Letters (UKPIL)' and 'General Logistics Systems (GLS)'.

Group operating profit before transformation costs

(£m)	Adjusted 53 weeks March 2019	**Adjusted 52 weeks March 2019**	Adjusted 52 weeks March 2018
UKPIL	367	**332**	503
GLS	177	**177**	191
Total	544	**509**	694
Operating profit margin before transformation costs	*5.1%*	***4.9%***	*6.8%*

Group operating profit after transformation costs

(£m)	Adjusted 53 weeks March 2019	**Adjusted 52 weeks March 2019**	Adjusted 52 weeks March 2018
UKPIL	234	**199**	390
GLS	177	**177**	191
Total	411	**376**	581
Operating profit margin after transformation costs	*3.9%*	***3.6%***	*5.7%*

Group operating profit margin after transformation costs was down 200 basis points on a 52 week underlying basis, driven by the lower level of profitability in both UKPIL and GLS.

Specific items and pension charge to cash difference adjustment

(£m)	53 weeks March 2019	52 weeks March 2018
Pension charge to cash difference adjustment (within People costs)	**(70)**	(458)
Operating specific items		
Impairment relating to GSO and Postal Express businesses	**(68)**	–
Accounting impact of RMSEPP buy-in settlement	**(64)**	–
Employee Free Shares charge	**(22)**	(33)
Amortisation of acquired intangible assets	**(20)**	(16)
Legacy/other costs	**(7)**	(8)
Potential industrial diseases claim credit	**–**	2
Other	**(7)**	(10)
Total operating specific items	**(181)**	(57)
Non-operating specific items		
Profit on disposal of property, plant and equipment	**15**	71
Net pension interest	**79**	91
Total non-operating specific items	**94**	162
Total specific items and pensions adjustment before tax	**(157)**	(353)
Total tax credit on specific items and pensions adjustment	**27**	157

The pension charge to cash difference adjustment was £70 million, £388 million lower than in 2017-18. This was due to the closure of the RMPP to future accrual in its previous form from 31 March 2018. The difference between the pension charge and cash cost largely comprises the difference between the IAS 19 income statement pension charge rate of 18.9 per cent for the DBCBS from 1 April 2018 and the actual cash payments rate agreed with the Trustee of 15.6 per cent. There is also a small difference between the pension charge of 41.0 per cent and cash cost of 17.1 per cent for the RMPP for the week of 26 to 31 March 2018. The pension charge to cash difference adjustment is expected to be around £85 million in 2019-20, £15 million higher than in 2018-19 due to the increase in the DBCBS pension charge rate to 19.6 per cent in 2019-20. The increase is due to a reduction in the discount rate used to calculate the DBCBS liabilities as a result of lower year-on-year corporate bond yields.

Operating specific items in the year included a previously announced £68 million impairment of the goodwill and assets related to the acquisition of the GSO and Postal Express businesses by GLS. More details on the impairment are provided in the section entitled 'General Logistics Systems (GLS)'.

Operating specific items also included a £64 million charge in relation to the accounting consequences of the purchase of a further buy-in insurance policy for the RMSEPP on 21 September 2018. A buy-in involves purchasing an insurance policy that provides cash flows that exactly match the value and timing of the benefits payable to the members it covers. This is an accounting adjustment in relation to the write off of the closing surplus as a result of the purchase of the policy. It has no cash impact to the Group. Further details are set out in the paragraph entitled 'Pensions'.

The Employee Free Shares charge for the year in relation to our Share Incentive Plans (SIP) was £22 million (2017-18: £33 million). This is expected to be £8 million for 2019-20 and not material thereafter. Amortisation of acquired intangible assets of £20 million largely relates to acquisitions in GLS. Other specific items in the year include the impairment of intangible assets relating to a UK subsidiary. Other specific items in the prior year relate to the integration of Romec into the Group.

Non-operating specific items mainly comprise the net pension interest credit of £79 million (2017-18: £91 million), which was lower than the prior year due to the lower pension surplus position at 25 March 2018 compared with 26 March 2017. The net pension interest credit is expected to be around £86 million in 2019-20.

The profit on disposal of property, plant and equipment of £15 million (2017-18: £71 million) largely relates to the sale of Delivery Offices in the year. The prior year included a £24 million overage payment in relation to the sale of Rathbone Place in 2011, a gain of £22 million from the completion of the sale of the Phoenix Place plot at Mount Pleasant, the £20 million overage payment in respect of the sale of the Paddington Mail Centre in 2014 and £2 million from the sale of vehicles.

The tax credit on specific items and the pension adjustment of £27 million has been recognised at statutory rates. The £130 million reduction compared with the prior year mainly related to the tax impact of the decision to close RMPP to future accrual in its previous form from 31 March 2018.

Net finance costs

Reported net finance costs of £13 million (2017-18: £16 million) largely comprised interest on the €500 million bond of £11 million (2017-18: £11 million).

Facility	Rate	Facility (£m)	Drawn (£m)	Facility end date
€500 million bond	2.5%	430	430	2024
Loans in overseas subsidiaries	0.9%	1	1	2022
Revolving credit facility	LIBOR+0.55%	1,050	–	2020-22
Total		**1,481**	**431**	

The blended interest rate on gross debt, including finance leases for 2018-19, is expected to be approximately three per cent. The retranslation impact of the €500 million bond is accounted for in equity.

Taxation

	53 weeks March 2019			52 weeks March 2018		
(£m)	**UK**	**GLS**	**Group**	UK	GLS	Group
Reported						
Profit/(loss) before tax	**160**	**81**	**241**	39	173	212
Tax (charge)/credit	**(23)**	**(43)**	**(66)**	93	(47)	46
Effective tax rate	***14%***	***53%***	***27%***	*n/a*	*27%*	*n/a*
Adjusted						
Profit before tax	**229**	**169**	**398**	378	187	565
Tax charge	**(40)**	**(53)**	**(93)**	(59)	(52)	(111)
Effective tax rate	***17%***	***31%***	***23%***	*16%*	*28%*	*20%*

The UK adjusted effective tax rate of 17 per cent (2017-18: 16 per cent) was higher than the prior year mainly because 2017-18 included a catch up on patent box claims. The effective rate was less than the UK statutory rate of 19 per cent, largely as a result of a patent box claim and a one off, first time recognition of a deferred tax asset on non-trading tax losses, partially offset by non-deductible expenditure.

The GLS adjusted effective tax rate of 31 per cent (2017-18: 28 per cent) is higher than the prior year, largely due to the derecognition of deferred tax assets in GLS US and increased losses in GLS France, for which no deferred tax asset was recognised.

The Group reported effective tax rate was 27 per cent. The effective rate was significantly impacted as there was no tax credit on the impairment of goodwill in respect of GLS US and the cost of the buy-in insurance policy for the RMSEPP. The impact of these items on the effective tax rate was partially offset by the net pension interest credit, on which there was no tax charge, and profits made on operational property disposals, which were offset by reinvestment relief. The prior year was a tax credit of £46 million on a reported profit before tax of £212 million mainly due to the one-off deferred tax credit of £78 million arising from the closure of the RMPP to future accrual after 31 March 2018.

Adjusted Earnings per share (EPS)

Adjusted basic EPS was 30.5 pence compared with 45.5 pence in the prior year. This largely reflected lower UKPIL and GLS operating profit.

In-year trading cash flow

(£m)	**53 weeks March 2019**	52 weeks March 2018
Reported EBITDA before transformation costs[26]	**865**	577
Pension charge to cash difference adjustment	**70**	458
Adjusted EBITDA before transformation costs	**935**	1,035
Trading working capital movements	**(237)**	74
Share-based awards (SAYE, LTIP and DSBP) charge adjustment	**7**	6
Total investment	**(487)**	(485)
Income tax paid	**(91)**	(75)
Research and development expenditure credit	**2**	5
Net finance costs paid	**(12)**	(15)
Total	**117**	545

[26] Reported EBITDA before transformation costs has been adjusted to exclude the share of associate company profits and specific operating items. For further details of Reported EBITDA before transformation costs, see section entitled 'Alternative Performance Measures'.

In-year trading cash inflow of £117 million was £428 million lower than the prior year mainly due to lower adjusted EBITDA before transformation costs and higher outflows in trading working capital.

Trading working capital outflow of £237 million was £311 million higher than 2017-18. This was largely due to the reversal of the benefit seen in the prior year in relation to the timing of the settlement of the 2017-18 frontline pay award of £101 million. This was paid in the first quarter of 2018-19. There was an impact on working capital due to an additional monthly payroll payment of £47 million and VAT payment of £17 million as a result of the 53rd week. Excluding these timing adjustments, the in-year trading cash flow would have been £282 million. Trading working capital in 2019-20 will see a benefit of around £64 million from the reversal of the 53rd week timing differences. The remainder of the working capital movement was largely in relation to the lower expectation of bonus payments for around 10,500 eligible managers across the UK in 2018-19.

Income tax paid increased by £16 million largely because there was no tax relief on payments made to the pension escrow in 2017-18. Net finance costs largely comprised interest on the €500 million bond and the decrease is mainly due to the increase in interest received, which includes interest from the RMPP escrow investments.

Net cash investment

(£m)	**53 weeks March 2019**	52 weeks March 2018
Growth capital expenditure	**(224)**	(224)
Replacement capital expenditure	**(140)**	(136)
Transformation operating expenditure	**(123)**	(125)
Voluntary redundancy	**(36)**	(56)
Project costs	**(87)**	(69)
Total investment	**(487)**	(485)
Proceeds from disposal of property (excluding London Development Portfolio), plant and equipment	**25**	40
Net cash investment	**(462)**	(445)

Net cash investment of £462 million was less than our expectation of around £500 million. This was due to the review of investment spend in the year resulting in the deferral of some expenditure whilst the review was conducted.

Growth capital expenditure was flat. We continue to invest in strategic projects in UKPIL and GLS, including expanding the GLS network, IT systems and activities supporting data projects. Total GLS capital expenditure was £113 million. Replacement capital expenditure increased by £4 million due to higher vehicle purchases. This was partially offset by lower property spend on refurbishments and a reduction in IT and data systems replacement costs.

Transformation operating expenditure decreased by £2 million. Voluntary redundancy cash expenditure was £20 million lower than 2017-18, largely due the timing of cash flows in relation to management headcount reduction which will be paid in the first half of 2019-20. This was offset by £18 million higher project costs, largely due to data projects to support future productivity improvements, investment to upgrade our IT and parcel systems and projects related to the implementation of the Defined Benefit Cash Balance Scheme (DBCBS) and development of the Collective Defined Contribution (CDC) pension scheme.

Proceeds from disposal of property (excluding London Development Portfolio) of £25 million largely relate to the sale of Delivery Offices in Whetstone, Hendon and Hampton as well as various other smaller Delivery Offices. 2017-18 included a £24 million overage payment in relation to the sale of Rathbone Place in 2011 and £14 million from the sale of various smaller Delivery Offices.

Net debt

A reconciliation of net debt is set out below.

(£m)	53 weeks March 2019	52 weeks March 2018
Net cash/(debt) brought forward at 25 March 2018 and 26 March 2017	**14**	(338)
Free cash flow	**(71)**	562
In-year trading cash flow	**117**	545
Other working capital movements	**6**	(3)
Cash cost of operating specific items	**(6)**	(12)
Proceeds from disposal of property (excluding London Development Portfolio), plant and equipment	**25**	40
Acquisition of business interests	**(220)**	(18)
Cash flows relating to London Development Portfolio	**7**	10
Debt transferred on acquisition	**–**	(3)
Purchase of own shares	**(10)**	–
Employee exercise of SAYE options	**5**	28
Foreign currency exchange impact	**4**	(2)
Increase in finance lease obligations (non-cash)	**–**	(2)
Dividends paid to equity holders of the parent Company	**(242)**	(231)
Net (debt)/cash carried forward	**(300)**	14

Movements in GLS client cash are included within other working capital. The amount held at 31 March 2019 was £20 million (25 March 2018: £24 million).

The cash cost of operating specific items was an outflow of £6 million mainly due to National Insurance contributions on the SIP 2013, 2014 and 2015 employee share sales and industrial disease settlements. Proceeds from disposal of property (excluding London Development Portfolio), plant and equipment of £25 million is explained in the paragraph entitled 'Net cash investment'.

Cash inflow relating to the London Development Portfolio was £7 million. Infrastructure and enabling works costs of £34 million on the Nine Elms and Mount Pleasant sites were offset by £41 million of receipts. Receipts include £21 million in relation to the Mount Pleasant plots and the £20 million overage received under the agreement for the sale of Paddington Mail Centre.

Purchase of own shares relates to the Company purchasing its own shares to fulfil Save As You Earn (SAYE) options exercised in the year and to meet Long Term Incentive Plan (LTIP) requirements.

Acquisition of business interests in the year largely related to the acquisition of Dicom Canada by GLS (further information is available in the section entitled 'General Logistics Systems (GLS)'). The acquisition of business interests in the prior year related to the acquisitions of Postal Express and Redyser by GLS.

A reconciliation of cash flows relating to acquisitions is shown in the following table:

(£m)	53 weeks March 2019
Dicom Canada	**(210)**
Trento (Italy)	**(2)**
Acquisition of business interests, net of cash acquired (see statutory cash flow statement)	**(212)**
Deferred consideration paid in respect of prior years' acquisitions	**(4)**
Acquisition of non-controlling interests	**(4)**
Acquisition of business interests	**(220)**

2018-19 Approach to capital management

The Group had four key objectives for capital management during 2018-19. Management proposes actions which reflect the Group's investment plans and risk characteristics as well as the macro-economic conditions in which we operate. The Board keeps this policy under constant review to ensure that capital is allocated to achieve our stated objective of delivering sustainable shareholder value.

Objectives	Enablers	2018-19 Update
Meet the Group's obligations as they fall due	Maintaining sufficient cash reserves and committed facilities to – • meet all obligations, including pensions; and • manage future risks, including those set out in the Principle Risks section	At 31 March 2019, the Group had available resources of £1,286 million (2017-18: £1,650 million); made up of cash and cash equivalents of £236 million (2017-18: £600 million) and undrawn committed revolving credit facilities of £1,050 million (2017-18: £1,050 million). The Group met the loan covenants and other obligations for its revolving credit facility and €500 million bond. As set out in the Viability Statement, the Directors have a reasonable expectation that the Group will continue to meet its obligations as they fall due.
Support a progressive dividend policy	Generate sufficient in-year trading cash flow to cover the ordinary dividend. Maintain sufficient distributable reserves to sustain the Group's dividend policy	The Group reported £117 million of in-year trading cash flow (2017-18: £545 million). In-year trading cash flow included an outflow of £101 million, due to the timing of the cash payment of the 2017-18 frontline pay award and an outflow due to impact of the 53rd week, which included an additional monthly payroll and VAT payment. Reversing the impact of these items would give an Adjusted-in-year trading cashflow of £282 million (2017-18: £444 million), sufficient to cover the full year dividend of 25.0 pence per share (2017-18: 24.0 pence per share). Capital managed by the Group, excluding the net assets of the pension scheme, is £2,284 million (2017-18: £2,273 million). The Group had retained earnings of £4,561 million at 31 March 2019 (2017-18: £4,381 million). The Group considers it has a maximum level of distributable reserves of around £2 billion which excludes the impact of the pension surplus on retained earnings, more than sufficient to cover the dividend.
Reduce the cost of capital for the Group	Target investment grade standard credit metrics i.e. no lower than BBB- under Standard & Poor's rating methodology	During the year, the Group maintained a credit rating of BBB with a stable outlook from Standard & Poor's.
Retain sufficient flexibility to invest in the future of the business	Funded by retained cash flows and manageable levels of debt consistent with our target credit rating	During the year, the Group made total gross investments of £487 million (2017-18: £485 million) and acquisition of business interests and non-controlling interests of £220 million (2017-18: £18 million) while retaining sufficient capital headroom.

Future approach to capital management

Our objective is to maintain a prudent financial policy. We believe we need to retain prudent levels of financial gearing given the high operational gearing inherent in our business. Balanced against this is the imperative to invest in the long-term sustainability of the Group. Our strategic plan requires a step up in investment, predominantly in the UK, over the next five years. This is a priority in our approach to capital management.

However, reflective of the Board's confidence in the Group's updated strategy, strong balance sheet position and future cash generation, the Board is today committing to underpin an annual dividend at not less than 15.0 pence per share from 2019-20 to 2023-24, regardless of Group's annual earnings or in-year trading cash flow. At this level the dividend is expected to be covered by cumulative trading cash flow over both three and five years.

Any excess capital will be used to support further returns to shareholders, fund selected bolt-on acquisitions in GLS and reduce net debt, as appropriate.

Given the level of underpinned annual dividend, the Board would expect to pay an interim dividend each year equal to half the underpinned annual dividend.

Pensions

A summary of the plans operated by Royal Mail and the timelines in context of this Financial Review is as follows:

- **Closed in December 2012**
  - Royal Mail Senior Executives Pension Plan (RMSEPP)

- **To 31 March 2018**
  - Royal Mail Pension Plan (RMPP)
  - Royal Mail Defined Contribution Plan (RMDCP)

- **1 April 2018 to 31 March 2019**
  - Defined Benefit Cash Balance Scheme (DBCBS)
  - Enhanced Royal Mail Defined Contribution Plan (RMDCP)

- **Proposed future scheme**
  - Collective Defined Contribution (CDC) together with a Defined Benefit Lump Sum Scheme (DBLSS)

The RMPP closed to future accrual in its previous form from 31 March 2018. The Company put in place transitional arrangements from 1 April 2018 and implemented a new DBCBS within the RMPP, and an improved RMDCP.

Details of each of the above are set out below.

Defined Benefit Cash Balance Scheme (DBCBS)

RMPP members automatically started building up DBCBS benefits from 1 April 2018 (unless they opted to join the improved RMDCP instead) together with eligible RMDCP members who opted to join.

The DBCBS guarantees members a minimum lump sum at age 65. It is therefore being accounted for as a defined benefit scheme in a similar way to the RMPP. The DBCBS will aim to provide increases to the lump sum each year, depending on investment performance. An IAS19 deficit of £72 million is shown on the balance sheet. The scheme is not in funding deficit and it is not anticipated that deficit payments will be required. The DBCBS will be subject to triennial valuations.

An IAS 19 pension service charge of 18.9 per cent (£362 million) has been charged to the income statement. The pension charge is greater than the cash contribution rate as the assumed rate of future increases in benefits (4.2 per cent) is greater than the assumed discount rate (2.6 per cent).

The Company has made contributions at 15.6 per cent (£297 million) of DBCBS pensionable pay in respect of the scheme. Members contribute six per cent (including Pension Salary Exchange).

The IAS 19 pension service charge to cash difference adjustment for 2018-19 was £70 million. Pension interest will be calculated on the assets and liabilities as at 31 March 2019 for inclusion in the income statement from 2019-20 onwards. For 2019-20, the interest will be a charge of £3 million.

Royal Mail Defined Contribution Plan (RMDCP)

Under the RMDCP, Company contributions have increased by one percentage point in each tier, up to a maximum of ten per cent. Current and future RMDCP members in the standard section will contribute at the highest contribution tier (employee: six per cent; employer: ten per cent) unless they opt to contribute at a lower level.

Royal Mail Pension Plan (RMPP)

The RMPP closed to future accrual in its previous form from 31 March 2018. The pre withholding tax accounting surplus of the RMPP at 31 March 2019 was £3,696 million, comprising assets of £10,458 million and liabilities of £6,762 million. The pre withholding tax accounting surplus has increased by £434 million in the period, mainly as a result of updated mortality assumptions identified as part of the March 2018 valuation exercise, together with the fact that the decrease in the real discount rate has had a greater impact on assets than on liabilities. After the withholding tax adjustment, the accounting surplus of the RMPP was £2,402 million at 31 March 2019. This is an accounting adjustment with no cash benefit to the Company. For 2019-20, the pension interest will be a credit of £89 million.

The triennial valuation of RMPP at 31 March 2018 is still in progress. The actuarial funding position at that date will not be known until the actuarial valuation has been completed, with the results being very sensitive to the assumptions adopted at that date. However, based on a set of assumptions which we believe could form the basis for the March 2018 valuation and then rolled forward, the RMPP actuarial surplus at 31 March 2019 was estimated to be around £50 million (31 March 2018: £100 million).

Royal Mail Senior Executives Pension Plan (RMSEPP)

The RMSEPP closed in December 2012 to future accrual and the Company makes no regular service contributions. On 21 September 2018, the RMSEPP Trustees purchased a further buy-in insurance policy in respect of all remaining pensioners and deferred members. A buy-in involves purchasing an insurance policy that provides cash flows that exactly match the value and timing of the benefits payable to the members it covers. This insurance policy, alongside the previous insurance policy purchased in April 2016, means that substantially all the liabilities of the scheme are now covered by insurance policies. After consideration of the facts outlined above, Management have concluded that the purchase of this further insurance policy should be treated as a settlement. The difference between the IAS 19 surplus before and after the transaction has resulted in £64 million being charged to the income statement as an operating specific item. This insurance policy includes provisions for the possible issue of individual policies in respect of individual members at the future discretion of the RMSEPP Trustees.

As with the previous insurance policy purchased in April 2016, this policy is considered an asset of the RMSEPP and does not confer any rights to individual members. All benefit payments due from the RMSEPP remain unchanged. Further details can be found in the paragraph entitled 'Royal Mail Senior Executive Plan (RMSEPP)' in note 11 in the notes to the consolidated financial statements.

The RMSEPP triennial valuation at 31 March 2018 has been completed. Based on the rolled forward assumptions used for that valuation, the RMSEPP actuarial surplus at 31 March 2019 was estimated to be £10 million (31 March 2018: £36 million).

In accordance with the updated Schedule of Contributions agreed as part of the 2018 triennial valuation, a final deficit payment of £1 million has been paid in 2018-19, together with £1 million in respect of death-in-service lump sum benefits and administration expenses. In accordance with the new Schedule of Contributions signed on 28 March 2019, around £500,000 a year will be paid for the period 1 April 2019 to 31 March 2025 in respect of death-in-service lump sum benefits and administration expenses.

The High Court has recently ruled that pension schemes have to address the issue of unequal Guaranteed Minimum Pensions (GMPs). From Royal Mail's perspective, the transfer of RMPP's historic pension liabilities to Government in 2012 included all of the Plan's GMP liabilities. The requirement to remove the inequality in former RMPP benefits deriving from GMPs therefore rests with Government.

RMSEPP, however, does still have its GMP liabilities and will be required to take action to equalise benefits. The Trustees' actuaries estimate that the cost of GMP equalisation will not be material. This is still subject to any further clarification from the Court on exact equalisation requirements, and also to the actual equalisation approach adopted by the Trustees.

Collective Defined Contribution (CDC) scheme and Defined Benefit Lump Sum Scheme (DBLSS)

The Government has published its response to the consultation on CDC pension schemes. It has committed to bringing forward legislation to enable CDC pension schemes at the earliest opportunity.

Based on current expectations, the CDC will be accounted for as a defined contribution scheme when implemented. The DBLSS will be accounted for as a defined benefit scheme with the accounting treatment expected to be similar to the transitional DBCBS. The new arrangements will have fixed employer contributions of 13.6 per cent and employee contributions of six per cent.

In 2019-20, the Company expects to contribute around £400 million in respect of all UK pension schemes.

Financial risks and related hedging

The Group is exposed to commodity price and currency risk. The Group operates hedging policies which are stated in the Notes to the Annual Report and Financial Statements 2018-19. The forecast diesel and jet commodity exposures in UKPIL are set out below together with the sensitivity of 2019-20 operating profit to changes in commodity prices and fuel duty.

2019-20 Exposure	Forecast total cost £m	Fuel duty/other costs (incl irrecoverable VAT) – not hedged 2019-20 £m	Underlying commodity exposure (incl irrecoverable VAT) 2019-20 £m	Underlying commodity volume hedged %	Residual unhedged underlying commodity exposure (incl irrecoverable VAT) £m	Impact on 2019-20 operating profit of a further 10% increase in commodity price £m	Impact on 2019-20 operating profit of a further 10% increase in fuel duty/other cost £m
Diesel	153	98	55	85	9	1	10
Jet fuel	9	2	7	88	1	–	–
Total	**162**	**100**	**62**	**85**	**10**	**1**	**10**

As a result of hedging, it is anticipated that the diesel and jet fuel commodity cost for 2019-20 will be around £6 million higher. Without hedging, the associated cost would be around £12 million higher (based upon closing fuel prices at 31 March 2019).

The Group is exposed to foreign currency risk due to interest payments on the €500 million bond, certain obligations under Euro denominated finance leases, trading with overseas postal administrations and various purchase contracts denominated in foreign currency. GLS' functional currency is the Euro which results in translational exposure to revenue, costs and operating profit.

The average exchange rate between Sterling and the Euro was £1:€1.13, the same as 2017-18. The impact on GLS' reported operating profit before tax in 2018-19 was not material. The impact of foreign exchange transactions in the UK was not material in 2018-19. The net impact on Group operating profit before tax was not material.

The Group manages its interest rate risk through a combination of fixed rate loans and leasing, floating rate loans/facilities and floating rate financial investments. At 31 March 2019, all of the gross debt of £556 million was at fixed rates to maturity.

Property

We invested £34 million in 2018-19 on works to separate the retained operational sites from the development plots at Mount Pleasant and infrastructure works at Nine Elms.

Mount Pleasant

Further cash proceeds are to be paid in contractually agreed staged payments over the 2019-20 to 2020-21 financial years, with the final balance of consideration to be paid in 2024. All proceeds received up to 2020-21, in aggregate, are expected to cover Royal Mail's outgoings on the separation and enabling works over this year.

Nine Elms

The Mayor of London and Borough of Wandsworth granted planning consent to Greystar and we are currently awaiting the completion of the judicial review period. Subsequent to the judicial review period, we anticipate receipt of £98 million cash proceeds on formal completion of the sale in the first half of the 2019-20 financial year. We have committed to reinvesting around £30 million for infrastructure works associated with these plots.

On 17 January 2019, it was announced that unconditional contracts had been exchanged for the sale of Plot C at the Nine Elms site to Galliard Homes for a total consideration of £22 million in cash. We are expecting to receive this payment in the first half of 2019-20.

IFRS 16 'Leases'

The Group will apply IFRS 16, which replaces IAS 17, with effect from 1 April 2019. The standard will have a material impact for the Group as it introduces a new lessee accounting model and requires the recognition of assets and liabilities for the majority of leases. Rental costs currently recognised in operating profit will be replaced by depreciation of the assets and finance costs on the liabilities. The total cash outflow for lease payments will not change. However, the payments related to the principal liabilities will be presented as cash outflows from financing activities, as opposed to the current treatment as cash outflow from operating activities.

At 31 March 2019, the Group held a significant number of operating leases for which the future undiscounted minimum lease payments amounted to £1,327 million as disclosed in note 25 to the consolidated financial statements. On adoption of IFRS 16, the expected effect on the balance sheet is the recognition of 'right of use' assets of around £0.8-1.0 billion, a corresponding lease liability of around £1.0-1.2 billion and a decrease in equity by around £100-200 million after tax. The expected effect on the income statement in 2019-20, based on the leases held on transition, will be an increase in the Group annual depreciation charge of around £120-130 million and an improvement in operating profit after transformation costs of around £35-45 million.

The Group will continue to implement and refine procedures and processes to apply the new requirements of IFRS 16. As a result of this ongoing work, it is possible that there may be some changes to the adoption impact outlined above, before the half year results to 29 September 2019 are issued. However, at this time these are not expected to be material. Further detail of IFRS 16 is provided in the section entitled 'Significant Accounting Policies' in the Notes to the to the consolidated financial statements.

Dividends

The final dividend of 16.3 pence per share in respect of the 2017-18 financial year was paid on 31 August 2018, following shareholder approval.

The interim dividend of 8.0 pence per share in respect of the 2018-19 financial year was paid on 16 January 2019, following shareholder approval, to shareholders on the register at the close of business on 7 December 2018.

Dividend in respect of 2018-19

The Board of Royal Mail recognises the importance of dividends to shareholders as well as the imperative to invest in the business to ensure the long-term sustainability of the Group to drive shareholder value.

Taking into account certain timing differences, the in-year trading cash flow in 2018-19 supports our stated progressive dividend policy. The Board is therefore recommending a final dividend of 17.0 pence per share, giving a full year dividend of 25.0 pence per share for 2018-19, an increase of four per cent.

Underlying change

Movements in revenue, costs, profits and margins are calculated on an adjusted 52 week basis. We also made adjustments for the first year impact of the Redyser and Dicom acquisitions. There was no movement in foreign exchange in GLS this year (2018-19: £1:€1.13; 2017-18: £1:€1.13).

We have made adjustments for working days in UKPIL. The UKPIL 53 week period consisted of 310.0 working days in 2018-19. The UKPIL working days for 2018-19 on a 52 week basis is 304.5 days (2017-18: 305.0 working days).

(£m)	**Adjusted 52 weeks March 2019**	Adjusted 52 weeks March 2018	Working days	Acquisitions	Underlying 52 weeks March 2018	Underlying change
Revenue						
UKPIL	**7,595**	7,615	(12)	–	7,603	Flat
GLS	**2,888**	2,557	–	114	2,671	8%
Intragroup revenue	**(39)**	–	–	–	–	–
Group	**10,444**	10,172	(12)	114	10,274	2%
Costs						
UKPIL						
People	**(4,975)**	(4,908)	–	–	(4,908)	1%
Non-people costs	**(2,288)**	(2,204)	–	–	(2,204)	4%
Distribution and conveyance costs	**(827)**	(798)	–	–	(798)	4%
Infrastructure costs	**(819)**	(751)	–	–	(751)	9%
Other operating costs	**(642)**	(655)	–	–	(655)	(2%)
Operating costs before transformation costs	**(7,263)**	(7,112)	–	–	(7,112)	2%
GLS						
People	**(667)**	(608)	–	(34)	(642)	4%
Non-people costs	**(2,044)**	(1,758)	–	(76)	(1,834)	11%
Distribution and conveyance costs	**(1,803)**	(1,558)	–	(61)	(1,619)	11%
Infrastructure costs	**(169)**	(148)	–	(9)	(157)	7%
Other operating costs	**(72)**	(52)	–	(6)	(58)	24%
Operating costs	**(2,711)**	(2,366)	–	(110)	(2,476)	9%
Group						
People	**(5,642)**	(5,516)	–	(34)	(5,550)	2%
Non-people costs[27]	**(4,293)**	(3,962)	–	(76)	(4,038)	6%
Distribution and conveyance costs[27]	**(2,591)**	(2,356)	–	(61)	(2,417)	7%
Infrastructure costs	**(988)**	(899)	–	(9)	(908)	9%
Other operating costs	**(714)**	(707)	–	(6)	(713)	Flat
Operating costs before transformation costs[27]	**(9,935)**	(9,478)	–	(110)	(9,588)	4%
Profit, margin and EPS						
UKPIL						
Operating profit before transformation costs	**332**	503	(12)	–	491	(32%)
Transformation costs	**(133)**	(113)	–	–	(113)	18%
Operating profit after transformation costs	**199**	390	(12)	–	378	(48%)
Operating profit margin after transformation costs	***2.6%***	*5.1%*			*5.0%*	*(240bps)*
GLS						
Operating profit	**177**	191	–	4	195	(9%)
Operating profit margin	***6.1%***	*7.5%*			*7.3%*	*(120bps)*
Group						
Operating profit before transformation costs	**509**	694	(12)	4	686	(26%)
Transformation costs	**(133)**	(113)	–	–	(113)	18%
Operating profit after transformation costs	**376**	581	(12)	4	573	(34%)
Operating profit margin after transformation costs	***3.6%***	*5.7%*			*5.6%*	*(200bps)*

27 Group distribution and conveyancing costs include a £39 million adjustment for intragroup costs between UKPIL and GLS. This was due to Parcelforce Worldwide being GLS's partner in the UK. This was not previously disclosed as the amount was not material. Total intragroup revenue has grown to a material amount in 2018-19 and we are therefore disclosing it separately. No prior year restatement is required.

PRESENTATION OF RESULTS AND ALTERNATIVE PERFORMANCE MEASURES (APMs)

The Group uses certain Alternative Performance Measures (APMs) in its financial reporting that are not defined under International Financial Reporting Standards (IFRS), the Generally Accepted Accounting Principles (GAAP) under which the Group produces its statutory financial information. These APMs are not a substitute, or superior to, any IFRS measures of performance. They are used by Management, who considers them to be an important means of comparing performance year-on-year and are key measures used within the business for assessing performance.

APMs should not be considered in isolation from, or as a substitute to, financial information presented in compliance with GAAP. Where appropriate, reconciliations to the nearest GAAP measure have been provided. The APMs used may not be directly comparable with similarly titled APMs used by other companies.

A full list of APMs used are set out in the section entitled 'Alternative Performance Measures (APMs)'.

Reported to adjusted results

The Group makes adjustments to results reported under IFRS to exclude specific items and the IAS 19 pension charge to cash difference adjustment (see definitions in the paragraph entitled 'Alternative performance measures'). Management believes this is a more meaningful basis upon which to analyse the business performance (in particular given the volatile nature of the IAS 19 charge) and is consistent with the way financial performance is reported to the Board.

IFRS can have the impact of causing high levels of volatility in reported earnings which do not relate to changes in the operational performance of the Company. Management has reviewed the long-term differences between reported and adjusted profit after tax. Cumulative reported profit after taxation for the five years ended 31 March 2019 was £1,256 million compared with cumulative 53 week adjusted profit after tax of £2,048 million. Annual reported profit after tax showed a range of £175 million to £328 million. The principal cause of the difference and volatility is due to pension-related accounting.

Further details on specific items excluded are included in the paragraph entitled 'Specific items and pension charge to cash difference adjustment'. A reconciliation showing the adjustments made between reported and adjusted group results can be found in the paragraph entitled 'Consolidated reported and adjusted results reconciliation'.

Underlying change

Movements compared with prior year in volumes, revenue, costs, profits and margins are shown on an underlying basis on a 52 week basis. Underlying movements improve comparability between periods by making adjustments to the prior year to take into account differences in working days in UKPIL and movements in foreign exchange in GLS. We only adjust for items with a full year impact greater than £10 million.

In addition, adjustments are made for non-recurring or distorting items, which by their nature may be unpredictable, such as the first year impact of acquisitions. For volumes, underlying movements are adjusted for working days in UKPIL and the first year impact of acquisitions. It also excludes political parties' election mailings in addressed letter volume movements.

The paragraph entitled 'Underlying change' provides further details on the adjustments we have made to the prior year to calculate the underlying change.

Presentation of results

Consolidated reported and adjusted results

The following table reconciles the consolidated reported results, prepared in accordance with IFRS, to the consolidated 53 week adjusted results.

(£m)	53 weeks March 2019 Reported	53 weeks March 2019 Specific items and pension adjustment	53 weeks March 2019 Adjusted	52 weeks March 2018 Reported	52 weeks March 2018 Specific items and pension adjustment	52 weeks March 2018 Adjusted
Revenue	**10,581**	**-**	**10,581**	10,172	–	10,172
Operating costs	**(10,107)**	**(70)**	**(10,037)**	(9,936)	(458)	(9,478)
People costs	**(5,782)**	**(70)**	**(5,712)**	(5,974)	(458)	(5,516)
Non-people costs	**(4,325)**	**-**	**(4,325)**	(3,962)	–	(3,962)
Distribution and conveyance costs	**(2,606)**	**-**	**(2,606)**	(2,356)	–	(2,356)
Infrastructure costs	**(995)**	**-**	**(995)**	(899)	–	(899)
Other operating costs	**(724)**	**-**	**(724)**	(707)	–	(707)
Operating profit before transformation costs	**474**	**(70)**	**544**	236	(458)	694
Transformation costs	**(133)**	**-**	**(133)**	(113)	–	(113)
Operating profit after transformation costs	**341**	**(70)**	**411**	123	(458)	581
Operating specific items:						
Impairment of assets relating to GSO and Postal Express businesses	**(68)**	**(68)**	**-**	–	–	–
Accounting impact of RMSEPP buy-in settlement	**(64)**	**(64)**	**-**	–	–	–
Employee Free Shares charge	**(22)**	**(22)**	**-**	(33)	(33)	–
Legacy/other costs	**(7)**	**(7)**	**-**	(8)	(8)	–
Amortisation of intangible assets in acquisitions	**(20)**	**(20)**	**-**	(16)	(16)	–
Operating (loss)/profit	**160**	**(251)**	**411**	66	(515)	581
Non-operating specific items:						
Profit on disposal of property, plant and equipment	**15**	**15**	**-**	71	71	–
Earnings before interest and tax	**175**	**(236)**	**411**	137	(444)	581
Finance costs	**(18)**	**-**	**(18)**	(19)	–	(19)
Finance income	**5**	**-**	**5**	3	–	3
Net pension interest (non-operating specific item)	**79**	**79**	**-**	91	91	–
Profit before tax	**241**	**(157)**	**398**	212	(353)	565
Tax (charge)/credit	**(66)**	**27**	**(93)**	46	157	(111)
Profit for the period	**175**	**(130)**	**305**	258	(196)	454
Profit for the period attributable to:						
Equity holders of the parent Company	**175**	**(130)**	**305**	259	(196)	455
Non-controlling interests	**-**	**-**	**-**	(1)	–	(1)
Earnings per share						
Basic	**17.5p**	**(13.0p)**	**30.5p**	25.9p	(19.6p)	45.5p
Diluted	**17.5p**	**(13.0p)**	**30.5p**	25.7p	(19.5p)	45.2p

Consolidated adjusted 52 week results

We are presenting the Group and UKPIL 2018-19 income statements to operating profit after transformation costs on an adjusted 53 and 52 week basis. The 52 week adjusted results provide a direct comparison of revenue and costs with 2017-18 by removing an estimate of the 53rd week's revenue based on working days and incremental costs for frontline staff, distribution and conveyance, property rates and utilities and Post Office commissions. Incremental costs exclude monthly staff salaries, depreciation and amortisation and technology costs.

The following table reconciles the consolidated 53 week adjusted results to the consolidated 52 week adjusted results.

(£m)	Adjusted 53 weeks March 2019	53rd week revenue and costs	Adjusted 52 weeks March 2019
Revenue	**10,581**	**(137)**	**10,444**
Operating costs	**(10,037)**	**102**	**(9,935)**
People costs	**(5,712)**	**70**	**(5,642)**
Non-people costs	**(4,325)**	**32**	**(4,293)**
Distribution and conveyance costs	**(2,606)**	**15**	**(2,591)**
Infrastructure costs	**(995)**	**7**	**(988)**
Other operating costs	**(724)**	**10**	**(714)**
Operating profit before transformation costs	**544**	**(35)**	**509**
Transformation costs	**(133)**	**-**	**(133)**
Operating profit after transformation costs	**411**	**(35)**	**376**

Segmental reported results

The following table presents the segmental reported results, prepared in accordance with IFRS.

(£m)	53 weeks March 2019				52 weeks March 2018		
	UKPIL (UK operations)	**GLS (Non-UK operations)**	**Intragroup elimination**	**Group**	UKPIL (UK operations)	GLS (Non-UK operations)	Group
Revenue	**7,732**	**2,888**	**(39)**	**10,581**	7,615	2,557	10,172
People costs	**(5,115)**	**(667)**	**-**	**(5,782)**	(5,366)	(608)	(5,974)
Non-people costs	**(2,320)**	**(2,044)**	**39**	**(4,325)**	(2,204)	(1.758)	(3,962)
Operating profit before transformation costs	**297**	**177**	**-**	**474**	45	191	236
Transformation costs	**(133)**	**-**	**-**	**(133)**	(113)	–	(113)
Operating profit/(loss) after transformation costs	**164**	**177**	**-**	**341**	(68)	191	123
Operating specific items	**(92)**	**(89)**	**-**	**(181)**	(43)	(14)	(57)
Operating profit/(loss)	**72**	**88**	**-**	**160**	(111)	177	66
Non-operating specific items	**14**	**1**	**-**	**15**	71	–	71
Earnings before interest and tax	**86**	**89**	**-**	**175**	(40)	177	137
Net finance costs	**(5)**	**(8)**	**-**	**(13)**	(12)	(4)	(16)
Net pension interest (non-operating specific item)	**79**	**-**	**-**	**79**	91	–	91
Profit before tax	**160**	**81**	**-**	**241**	39	173	212
Tax (charge)/credit	**(23)**	**(43)**	**-**	**(66)**	93	(47)	46
Profit for the period	**137**	**38**	**-**	**175**	132	126	258

ALTERNATIVE PERFORMANCE MEASURES (APMs)

This section lists the definition of the various APMs disclosed throughout the Annual Report and Financial Review. They are used by Management, who considers them to be an important means of comparing performance year-on-year and are key measures used within the business for assessing performance.

Reported operating profit before and after transformation costs

These measures are in accordance with IFRS and are a means by which Management can understand the financial performance of the Group, taking into account business-as-usual (BAU) costs e.g. people, distribution and conveyance, infrastructure and other operating costs excluding operating specific items. They are presented before and after transformation costs, to provide Management with a view of the ongoing impact of the costs of transforming the business.

Reported operating profit

This measure is in accordance with IFRS and is a means by which Management can understand the financial performance of the Group. It is based on reported profit after transformation costs (see above) including operating specific items.

Adjusted operating profit before and after transformation costs

These measures are based on reported operating profit before and after transformation costs (see above) further adjusted to exclude the volatility of the pension charge to cash difference adjustment, which Management considers to be a key adjustment in understanding the underlying profit of the Group at this level.

Adjusted operating profit

This measure is based on reported operating profit (see above) excluding the pension charge to cash difference adjustment and operating specific items, which Management considers to be key adjustments in understanding the underlying profit of the Group at this level.

These adjusted measures are reconciled to the reported results in the table in the paragraph entitled 'Consolidated reported and adjusted results reconciliation'. Definitions of operating costs, the pension charge to cash difference adjustment, transformation costs and operating specific items are provided below.

Adjusted operating profit margin after transformation costs

This is a fundamental measure of performance that Management uses to understand the efficiency of the business in generating profit. It calculates 'adjusted operating profit after transformation costs' as a proportion of revenue in percentage terms.

Earnings before interest, tax, depreciation and amortisation (EBITDA) before transformation costs

Reported EBITDA before transformation costs is reported operating profit before transformation costs with depreciation and amortisation and share of associate company profits added back.

Adjusted EBITDA before transformation costs is reported EBITDA before transformation costs with the pension charge to cash difference adjustment added back.

EBITDA is considered to be a useful measure of operating performance because it approximates the underlying operating cash flow by eliminating depreciation, amortisation and the performance of associate companies.

The following table reconciles adjusted EBITDA before transformation costs to reported operating profit before transformation costs.

(£m)	**53 weeks March 2019**	52 weeks March 2018
Reported operating profit before transformation costs	**474**	236
Depreciation and amortisation	**391**	341
Reported EBITDA before transformation costs	**865**	577
Pension charge to cash difference adjustment	**70**	458
Adjusted EBITDA before transformation costs	**935**	1,035

Adjusted earnings per share

Adjusted earnings per share is reported basic earnings per share, excluding operating and non-operating specific items and the pension charge to cash difference adjustment. A reconciliation of this number to reported basic earnings per share is included in the adjusted results table in the section entitled 'Presentation of results'.

People costs
These are costs incurred in respect of the Group's employees and comprise wages and salaries, pensions and social security costs.

Distribution and conveyance costs
These costs relate to non-people costs incurred in transporting and delivering mail by rail, road, sea and air, together with costs incurred by international mail carriers, Parcelforce Worldwide delivery operators and GLS.

Infrastructure costs
These are costs primarily relating to the day-to-day operation of the delivery network and include depreciation and amortisation, IT and property facilities management costs.

Other operating costs
These are any operating costs which do not fall into the categories of people costs, distribution and conveyance costs or infrastructure costs including for example, Post Office Limited agency costs, consumables and training. Other operating costs exclude transformation costs and operating specific items.

Transformation costs
These costs relate to the ongoing transformation of the business, including management time and costs associated with the cost avoidance programme, and other projects with the aim of making our operations more efficient or improving our customer offering. They also include voluntary redundancy and other termination costs.

Pension charge to cash difference adjustment
This adjustment represents the difference between the IAS 19 income statement pension charge rate of 41 per cent for the RMPP to 31 March 2018 and 18.9 per cent for the DBCBS from 1 April 2018 and the actual cash payments agreed with the RMPP Trustee of 17.1 per cent of pensionable pay for RMPP to 31 March 2018 and 15.6 per cent for the DBCBS. Management believes this adjustment is appropriate in order to eliminate the volatility of the IAS 19 accounting charge and to include only the true cash cost of the pension plans in the adjusted operating profit of the Group.

Operating specific items
These are recurring or non-recurring items of income or expense of a particular size and/or nature relating to the operations of the business that, in Management's opinion, require separate identification. Management does not consider them to be reflective of year-on-year operating performance. These include items that have resulted from events that are non-recurring in nature, even though related income/expense can be recognised in subsequent periods.

Employee Free Shares charge
These relate to accounting charges arising from the granting of free shares to employees upon the Government's sales of its stake in the business (SIP 2013, 2014, 2015 and 2016) with no direct cash impact on the Group.

Amortisation of intangible assets in acquisitions
These notional charges, which arise as a direct consequence of IFRS business combination accounting requirements, are separately identified as Management does not consider these costs to be directly related to the trading performance of the Group.

Legacy/other costs
These costs relate either to unavoidable ongoing costs arising from historic events (industrial diseases provision) or restructuring costs.

Non-operating specific items
These are recurring or non-recurring items of income or expense of a particular size and/or nature which do not form part of the Group's trading activity and in Management's opinion require separate identification.

Profit/loss on disposal of property, plant and equipment (PP&E)
Management separately identifies recurring profit/loss on disposal of PP&E as these disposals are not part of the Group's trading activity and are driven primarily by business strategy.

Profit/loss on disposal of business
These non-recurring events are excluded on the basis that by their nature they are individually unique and therefore distort comparison of year-on-year business performance.

Free cash flow
Free cash flow (FCF) is calculated as statutory (reported) net cash flow before financing activities, adjusted to include finance costs paid and exclude net cash from the purchase/sale of financial asset investments. FCF represents the cash that the Group generates after spending the money required to maintain or expand its asset base.

In-year trading cash flow

In-year trading cash flow reflects the cash generated from the trading activities of the Group. It is based on reported net cash inflow from operating activities, adjusted to exclude other working capital movements and the cash cost of operating specific items and to include the cash cost of property, plant and equipment and intangible asset acquisitions and net finance payments. Other working capital movements include movements in GLS client cash held and in deferred revenue from stamps purchased in prior periods. In-year trading cash flow is used primarily by Management to show cash being generated by operations less cash investment.

The following table reconciles in-year trading cash flow to the nearest IFRS measure 'net cash inflow from operating activities'.

(£m)	Reported 53 weeks March 2019	Reported 52 weeks March 2018
Net cash inflow from operating activities	**493**	905
Adjustment for:		
Other working capital movements	**(6)**	3
Cash cost of operating specific items	**6**	12
Purchase of property, plant and equipment	**(264)**	(219)
Purchase of intangible assets (software)	**(100)**	(141)
Net finance costs paid	**(12)**	(15)
In-year trading cash inflow	**117**	545
Add back 2017-18 pay award	**101**	(101)
Add back 53rd week payroll and VAT payments	**64**	-
Adjusted in-year trading cash flow	**282**	444

In-year trading cash flow included an outflow of £101 million, due to the timing of the cash payment of the 2017-18 frontline pay award and an outflow due to impact of the 53rd week, which included an additional monthly payroll and VAT payment. Reversing the impact of these items would give an Adjusted in-year trading cashflow of £282 million (2017-18: £444 million), sufficient to cover the full year dividend of 25.0 pence per share (2017-18: 24.0 pence per share).

Net cash investment

Net cash investment is a measure of the cash utilised by the Group in the period on investment activities netted off against cash received on the disposal of property, plant and equipment. It is a measure used by Management to monitor investment within the Group. The items making up this balance in the statutory cash flow are indicated in the section 'Condensed consolidated statement of cash flows'.

Net debt

Net debt is calculated by netting the value of financial liabilities (excluding derivatives) against cash and other liquid assets. It is a measure of the Group's net indebtedness that provides an indicator of the overall balance sheet strength. It is also a single measure that can be used to assess the combined impact of the Group's indebtedness and its cash position. The use of the term net debt does not necessarily mean that the cash included in the net debt calculation is available to settle the liabilities included in this measure. Details of the borrowing facilities in place and the amounts drawn can be found in the section titled 'Net finance costs'.

A reconciliation of net debt to reported balance sheet line items is shown below.

(£m)	At 31 March 2019	At 25 March 2018
Loans/bonds	**(431)**	(437)
Finance leases	**(125)**	(169)
Cash and cash equivalents	**236**	600
Pension escrow (RMSEPP)	**20**	20
Net debt	**(300)**	14

Net debt excludes £187 million (2017-18: £178 million) related to the RMPP pension scheme of the total £207 million (2017-18: £198 million) pension escrow investments on the balance sheet which is not considered to fall within the definition of net debt.

Adjusted effective tax rate

The adjusted effective tax rate is the adjusted tax charge or credit for the period expressed as a proportion of adjusted profit before tax. Adjusted effective tax rate is considered to be a useful measure of tax impact for the period. It approximates the tax rate on the underlying trading business through the exclusion of specific items and the pension charge to cash difference adjustment.

VIABILITY STATEMENT

The Directors have assessed the viability of the Group as part of their ongoing risk management and monitoring processes. The Directors have considered their stewardship responsibilities, previous viability statements, the nature of the business and its investment and planning periods when making this assessment.

The key factors affecting the Group's prospects are:

- Transforming and growing our UK business;
- Scaling up and growing GLS; and
- Enhancing our crossborder proposition.

While the Directors have no reason to believe that the Group will not be viable over the longer term, they consider the three financial years to March 2022 to be an appropriate planning time horizon to assess Royal Mail's viability and to determine the probability and impact of our principal risks. Although forecasts have been prepared for longer periods for the purposes of the strategy day, there is inevitably more uncertainty associated with a longer time frame, and the Group will revert to a three year time frame for future business plans. This period also aligns with the performance criteria in our Long Term Incentive Plans (LTIP).

Business divisions have prepared detailed annual forecasts for a 12 month period and project performance over five years with reference to economic assumptions and strategic initiatives.

The key assumptions within the Group's financial forecasts are outlined in the section entitled 'Strategy and financial outlook: three and five years'. The following assumptions are also made for the viability statement:

- No change in capital structure. The Group has €500m bond which expires in 2024 and a revolving credit facility (RCF), the majority of which expires in March 2022. It is assumed that the RCF could be renewed on similar terms.
- The current Regulatory Framework was extended in March 2017 through to March 2022. It is therefore assumed that there is no change in the Regulatory Framework over this period.

Assessment of Viability

The key assumptions within the projections were stress-tested with reference to risks set out in the Principal Risks section of the Annual Report but focused on those that could have a plausible and severe financial impact over the plan horizon.

This year, the Directors considered:

I. the potential impact of industrial action; (Principal risk: Industrial Action)
II. deteriorating economic and market conditions which could result in letters volume decline greater than our projected range (Principal risk: Economic and Political Environment);
III. a no deal Brexit, which could cause economic conditions to deteriorate further (Principal risk: Economic and Political Environment); and
IV. increased competition in the UK parcels sector. (Principal risk: Customer expectations and Royal Mail's responsiveness to market changes)

These risks were quantified to create a downside scenario that took into account the levels of committed capital and expenditure, as well as other short-term cost and cash actions which could mitigate the impact of the risks. Mitigating actions included:

I. reducing variable hours and cost of sales
II. removing discretionary pay
III. reducing our internal investment
IV. reducing our one-off projects

Consideration was also given to the large fixed cost base required to deliver the Universal Service Obligation in its current form.
The downside scenario was tested to determine whether the Group would remain solvent.

Viability Statement

Based on the results of their analysis, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to March 2022.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the parent Company financial statements on the same basis.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the Directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Rico Back

Group Chief Executive Officer

Stuart Simpson

Chief Finance Operations Officer

CONSOLIDATED INCOME STATEMENT

FOR THE 53 WEEKS ENDED 31 MARCH 2019
AND 52 WEEKS ENDED 25 MARCH 2018

	Notes	**Reported 53 weeks 2019 £m**	Reported 52 weeks 2018 £m
Continuing operations			
Revenue	2/3	**10,581**	10,172
Operating costs[1]	4/5	**(10,107)**	(9,936)
People costs		**(5,782)**	(5,974)
Distribution and conveyance costs		**(2,606)**	(2,356)
Infrastructure costs		**(995)**	(899)
Other operating costs		**(724)**	(707)
Operating profit before transformation costs[2]		**474**	236
Transformation costs		**(133)**	(113)
Operating profit after transformation costs[2]		**341**	123
Operating specific items			
RMSEPP buy-in settlement	9(c)	**(64)**	–
Employee Free Shares charge		**(22)**	(33)
Impairment/legacy/other costs		**(75)**	(8)
Amortisation of intangible assets in acquisitions		**(20)**	(16)
Operating profit		**160**	66
Profit on disposal of property, plant and equipment (non-operating specific item)		**15**	71
Earnings before interest and tax		**175**	137
Finance costs		**(18)**	(19)
Finance income		**5**	3
Net pension interest (non-operating specific item)	9(c)	**79**	91
Profit before tax		**241**	212
Tax (charge)/credit	6	**(66)**	46
Profit for the year		**175**	258
Profit for the year attributable to:			
Equity holders of the parent Company		**175**	259
Non-controlling interests		**–**	(1)
Earnings per share			
Basic	7	**17.5p**	25.9p
Diluted	7	**17.5p**	25.7p

1 Operating costs are stated before transformation costs, RMSEPP buy-in settlement, Employee Free Shares charge, impairment/legacy/other costs and amortisation of intangible assets in acquisitions.
2 These measures of performance are both before operating specific items.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE 53 WEEKS ENDED 31 MARCH 2019
AND 52 WEEKS ENDED 25 MARCH 2018

	Notes	**Reported 53 weeks 2019 £m**	Reported 52 weeks 2018 £m
Profit for the year		**175**	258
Other comprehensive income/(expense) for the year from continuing operations:			
Items that will not be subsequently reclassified to profit or loss:			
Amounts relating to pensions accounting		**239**	(658)
Withholding tax payable on distribution of RMPP and RMSEPP surplus	9	(138)	(1,144)
Remeasurement gains of the defined benefit surplus in RMPP and RMSEPP	9(c)	383	10
Remeasurement losses of the defined benefit deficit in DBCBS	9(d)	(8)	–
Deferred tax	6	2	476
Items that may be subsequently reclassified to profit or loss:			
Foreign exchange translation differences		**(9)**	(4)
Exchange differences on translation of foreign operations (GLS)		(16)	1
Net gain/(loss) on hedge of a net investment (€500 million bond)		5	(5)
Net gain on hedge of a net investment (Euro-denominated finance lease payables)		1	–
Tax on above items	6	1	–
Designated cash flow hedges		**(3)**	2
Gains on cash flow hedges deferred into equity		14	11
Gains on cash flow hedges released from equity to income		(17)	(7)
Gains on cash flow hedges released from equity to the carrying amount of non-financial assets		(1)	(1)
Tax on above items	6	1	(1)
Total other comprehensive income/(expense) for the year		**227**	(660)
Total comprehensive income/(expense) for the year		**402**	(402)
Total comprehensive income/(expense) for the year attributable to:			
Equity holders of the parent Company		**402**	(401)
Non-controlling interests		**–**	(1)

CONSOLIDATED BALANCE SHEET

AT 31 MARCH 2019 AND 25 MARCH 2018

	Notes	**Reported at 31 March 2019 £m**	Reported at 25 March 2018 £m
Non-current assets			
Property, plant and equipment		**2,066**	2,016
Goodwill	11	**380**	324
Intangible assets		**631**	608
Investments in associates and joint venture		**5**	5
Financial assets			
Pension escrow investments		**207**	198
Derivatives		**4**	5
RMPP/RMSEPP retirement benefit surplus – net of withholding tax payable	9	**2,408**	2,163
Other receivables		**12**	13
Deferred tax assets	6	**64**	72
		5,777	5,404
Assets held for sale		**36**	50
Current assets			
Inventories		**27**	25
Trade and other receivables		**1,310**	1,160
Income tax receivable		**7**	3
Financial assets			
Derivatives		**8**	15
Cash and cash equivalents		**236**	600
		1,588	1,803
Total assets		**7,401**	7,257
Current liabilities			
Trade and other payables		**(1,883)**	(1,927)
Financial liabilities			
Interest-bearing loans and borrowings		**–**	(1)
Obligations under finance leases		**(37)**	(59)
Derivatives		**(3)**	(3)
Income tax payable		**(8)**	(33)
Provisions		**(58)**	(59)
		(1,989)	(2,082)
Non-current liabilities			
Financial liabilities			
Interest-bearing loans and borrowings		**(431)**	(436)
Obligations under finance leases		**(88)**	(110)
Derivatives		**(2)**	(4)
DBCBS retirement benefit deficit	9	**(72)**	–
Provisions		**(104)**	(103)
Other payables		**(41)**	(41)
Deferred tax liabilities	6	**(55)**	(45)
		(793)	(739)
Total liabilities		**(2,782)**	(2,821)
Net assets		**4,619**	4,436
Equity			
Share capital		**10**	10
Retained earnings		**4,576**	4,381
Other reserves		**33**	45
Total equity attributable to parent Company		**4,619**	4,436

The financial statements were approved and authorised for issue by the Board of Directors on 21 May 2019 and were signed on its behalf by:

Rico Back
Group Chief Executive Officer

Stuart Simpson
Chief Finance Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE 53 WEEKS ENDED 31 MARCH 2019
AND 52 WEEKS ENDED 25 MARCH 2018

	Share capital £m	Retained earnings £m	Foreign currency translation reserve £m	Hedging reserve £m	Equity holders of the parent £m	Non-controlling interests £m	Total equity £m
Reported at 26 March 2017	10	4,940	40	7	4,997	1	4,998
Profit for the year	–	259	–	–	259	(1)	258
Other comprehensive (expense)/income for the year	–	(658)	(4)	2	(660)	–	(660)
Total comprehensive (expense)/income for the year	–	(399)	(4)	2	(401)	(1)	(402)
Transactions with owners of the Company, recognised directly in equity							
Dividend paid to equity holders of the parent Company	–	(231)	–	–	(231)	–	(231)
Share-based payments							
Employee Free Shares issue[1]	–	35	–	–	35	–	35
Save As You Earn (SAYE) scheme	–	1	–	–	1	–	1
Long-Term Incentive Plan (LTIP)[2]	–	3	–	–	3	–	3
Deferred Share Bonus Plan (DSBP)	–	2	–	–	2	–	2
Employee exercise of SAYE options	–	28	–	–	28	–	28
Deferred tax on share-based payments	–	5	–	–	5	–	5
Settlement of LTIP 2014	–	(3)	–	–	(3)	–	(3)
Reported at 25 March 2018	10	4,381	36	9	4,436	–	4,436
Profit for the year	**–**	**175**	**–**	**–**	**175**	**–**	**175**
Other comprehensive income/(expense) for the year	**–**	**239**	**(9)**	**(3)**	**227**	**–**	**227**
Total comprehensive income/(expense) for the year	**–**	**414**	**(9)**	**(3)**	**402**	**–**	**402**
Transactions with owners of the Company, recognised directly in equity							
Dividend paid to equity holders of the parent Company	**–**	**(242)**	**–**	**–**	**(242)**	**–**	**(242)**
Reversal of put options for non-controlling interests	**–**	**2**	**–**	**–**	**2**	**–**	**2**
Share-based payments							
Employee Free Shares issue[1]	**–**	**23**	**–**	**–**	**23**	**–**	**23**
Long-Term Incentive Plan (LTIP)[2]	**–**	**4**	**–**	**–**	**4**	**–**	**4**
Deferred Share Bonus Plan (DSBP)	**–**	**3**	**–**	**–**	**3**	**–**	**3**
Purchase of own shares[3]	**–**	**(10)**	**–**	**–**	**(10)**	**–**	**(10)**
Employee exercise of SAYE options	**–**	**5**	**–**	**–**	**5**	**–**	**5**
Deferred tax on share-based payments	**–**	**(1)**	**–**	**–**	**(1)**	**–**	**(1)**
Settlement of LTIP 2015	**–**	**(3)**	**–**	**–**	**(3)**	**–**	**(3)**
Reported at 31 March 2019	**10**	**4,576**	**27**	**6**	**4,619**	**–**	**4,619**

1 Excludes £1 million credit (2017-18: £2 million credit) for National Insurance, recognised in the income statement, included in provisions on the balance sheet.
2 Excludes £1 million credit (2017-18: £1 million charge) for National Insurance, recognised in the income statement, included in provisions on the balance sheet.
3 Shares required for employee share schemes.

CONSOLIDATED STATEMENT OF CASH FLOWS

**FOR THE 53 WEEKS ENDED 31 MARCH 2019
AND 52 WEEKS ENDED 25 MARCH 2018**

	Notes	**Reported 53 weeks 2019 £m**	Reported 52 weeks 2018 £m
Cash flow from operating activities			
Profit before tax		**241**	212
Adjustment for:			
Net pension interest	9(c)	**(79)**	(91)
Net finance costs		**13**	16
Profit on disposal of property, plant and equipment		**(15)**	(71)
RMSEPP buy-in settlement	9(c)	**64**	–
Employee Free Shares charge		**22**	33
Impairment/legacy/other costs		**75**	8
Amortisation of intangible assets in acquisitions		**20**	16
Transformation costs		**133**	113
Operating profit before transformation costs[1]		**474**	236
Adjustment for:			
Depreciation and amortisation		**391**	341
EBITDA before transformation costs[1]		**865**	577
Working capital movements		**(231)**	71
Increase in inventories		(2)	(2)
Increase in receivables		(176)	(7)
(Decrease)/increase in payables		(51)	89
Net decrease/(increase) in derivative assets		2	(9)
Decrease in provisions (non-specific items)		(4)	–
Pension charge to cash difference adjustment	9	**70**	458
Share-based awards (SAYE, LTIP and DSBP) charge		**7**	6
Cash cost of transformation operating expenditure[2]		**(123)**	(125)
Cash cost of operating specific items		**(6)**	(12)
Cash inflow from operations		**582**	975
Income tax paid		**(91)**	(75)
Research and development expenditure credit		**2**	5
Net cash inflow from operating activities		**493**	905
Cash flow from investing activities			
Finance income received		**5**	3
Proceeds from disposal of property (excluding London Development Portfolio), plant and equipment (non-operating specific item)		**25**	40
London Development Portfolio net proceeds (non-operating specific item)		**7**	10
Purchase of property, plant and equipment[2]		**(264)**	(219)
Acquisition of business interests, net of cash acquired		**(212)**	(16)
Purchase of intangible assets (software)[2]		**(100)**	(141)
Payment of deferred consideration in respect of prior years' acquisitions		**(4)**	(2)
Net cash outflow from investing activities		**(543)**	(325)
Net cash (outflow)/inflow before financing activities		**(50)**	580

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

**FOR THE 53 WEEKS ENDED 31 MARCH 2019
AND 52 WEEKS ENDED 25 MARCH 2018**

	Notes	**Reported 53 weeks 2019 £m**	Reported 52 weeks 2018 £m
Cash flow from financing activities			
Finance costs paid		**(17)**	(18)
Acquisition of non-controlling interests		**(4)**	–
Purchase of own shares		**(10)**	–
Employee exercise of SAYE options		**5**	28
Payment of capital element of obligations under finance lease contracts		**(56)**	(63)
Cash received on sale and leasebacks		**13**	35
Repayment of loans and borrowings		**(1)**	(32)
Dividends paid to equity holders of the parent Company	8	**(242)**	(231)
Net cash outflow from financing activities		**(312)**	(281)
Net (decrease)/increase in cash and cash equivalents		**(362)**	299
Effect of foreign currency exchange rates on cash and cash equivalents		**(2)**	2
Cash and cash equivalents at the beginning of the year		**600**	299
Cash and cash equivalents at the end of the year		**236**	600

[1] See APMs section for a definition of these measures.
[2] Items comprise total gross investment within 'In-year trading cash flow' measure (see Financial Review).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

General information

Royal Mail plc ('the Company') is incorporated in the United Kingdom (UK) and listed on the London Stock Exchange. The UK is the Company's country of domicile.

The consolidated financial statements of the Company for the 53 weeks ended 31 March 2019 (2017-18: 52 weeks ended 25 March 2018) comprise the Company and its subsidiaries (together referred to as 'the Group') and the Group's interest in its associate undertakings and joint venture.

Basis of preparation and accounting

(a) The Directors consider that the Group has adequate resources to continue in operational existence for a minimum of 12 months from the signing date of these financial statements and that it is therefore appropriate to adopt the going concern basis in preparing its financial statements.

(b) The consolidated financial statements of the Group have been prepared in accordance with the Companies Act 2006 and applicable IFRS as adopted for use in the EU. The consolidated financial statements have been prepared in accordance with the accounting policies stated in the Group's Annual Report and Financial Statements for the reporting year ended 31 March 2019.

The financial information set out in this document does not constitute the Group's statutory financial statements for the reporting years ended 31 March 2019 or 25 March 2018, but is derived from those financial statements. Statutory financial statements for the reporting year ended 25 March 2018 have been delivered to the Registrar of Companies. The statutory financial statements for the reporting year ended 31 March 2019 were approved by the Board of Directors on 21 May 2019 along with this Financial report, but will be delivered to the Registrar of Companies in due course. The auditor has reported on those statutory financial statements; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The Annual Report and Financial Statements 2018-19, together with details of the Annual General Meeting (AGM), will be despatched to shareholders before the AGM. The AGM will take place on 18 July 2019.

Presentation of results and accounting policies

The Group's significant accounting policies, including details of new and amended accounting standards adopted in the reporting year, can be found in the Annual Report and Financial Statements 2018-19. Details of key sources of estimation uncertainty and critical accounting judgements are provided below.

These financial statements and associated Notes have been prepared in accordance with IFRS as adopted by the EU and as issued by the International Accounting Standards Board (IASB) (i.e. on a 'reported' basis). In some instances, Alternative Performance Measures (APMs) are used by the Group. This is because Management is of the view that these APMs provide a more meaningful basis on which to analyse business performance, and are consistent with the way that financial performance is measured by Management and reported to the Board. Details of the APMs used by the Group are provided in the Financial Review.

Sources of estimation uncertainty and critical accounting judgements

The preparation of consolidated financial statements necessarily requires Management to make certain estimates and judgements that can have a significant impact on the financial statements. These estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas involving a higher degree of judgement or complexity, or areas where there is thought to be a significant risk of a material adjustment to the consolidated financial statements within the next financial year as a result of the estimation uncertainty are disclosed below.

Key sources of estimation uncertainty

Pensions

The value of defined benefit pension plan liabilities and assessment of pension plan costs are determined by long-term actuarial assumptions. These assumptions include discount rates (which are based on the long-term yield of high-quality corporate bonds), inflation rates and mortality rates. Differences arising from actual experience or future changes in assumptions will be reflected in the Group's consolidated statement of comprehensive income. The Group exercises its judgement in determining the assumptions to be adopted, after discussion with a qualified actuary. Details of the key actuarial assumptions used and of the sensitivity of these assumptions for RMPP are included within Note 9.

1. Basis of preparation (continued)

Defined benefit pension plan assets are measured at fair value. Where these assets cannot be valued directly from quoted market prices, the Group applies judgement in selecting an appropriate valuation method, after discussion with an expert fund manager. The assumptions used in valuing unquoted investments are affected by current market conditions and trends, which could result in changes to the fair value after the measurement date. Details of the carrying value of the unquoted pension plan asset classes can be found in Note 9.

Constructive obligation – Defined Benefit Cash Balance Scheme (DBCBS)

In accounting for the DBCBS pension scheme Management must apply judgement in determining whether a constructive obligation exists in relation to annual pension benefit increases in the absence of a legal obligation. Any such constructive obligation must be included in the calculation of the fair value of the DBCBS defined benefit liability. From an assessment of announcements and internal communications made to members of the scheme to date, Management is of the view that scheme members would have a reasonable expectation of returns of CPI plus two per cent. Further details are available in Note 9, including sensitivities around measures involving CPI.

Deferred revenue

The Group recognises advance customer payments on its balance sheet, predominantly relating to stamps and meter credits purchased by customers but not yet used at the balance sheet date.

The majority of this balance is made up of stamps sold to the general public. To determine the amount of sales to defer, estimates of stamp volumes held are made on the basis of monthly surveys performed by an independent third-party. Surveys of this nature are inherently subjective, and rely upon the number and demographic profile of respondents. Together with the third party and consistent with prior years, we make adjustments that seek to address potential bias by capping and constraining the data.

The impact of these adjustments are shown in the table below:

		Capped			Uncapped
Number of public stamp holdings		30	As reported 99	300	
At 31 March 2019 (£m)	**Constrained (as reported)**	**156**	**188**	**211**	**213**
	Unconstrained	**196**	**232**	**252**	**254**
At 25 March 2018 (£m)	Constrained (as reported)	154	179	188	188
	Unconstrained	190	220	228	228

The survey provides a 95 per cent confidence that the amount reported is unlikely to fall outside a range of +/- £22 million (2017-18: £19 million), and this approximately represents 44 days of stamp holdings in the hands of customers. Should the actual number of days of stamp holdings be 10 days more or less, then the amount deferred would change by £43 million (2017-18: £43 million). The results are reviewed by Management in order to make a judgement of the carrying amount of the accrual.

Other sources of estimation uncertainty

Business Acquisition - Dicom Canada

Identifiable assets acquired and liabilities and contingent liabilities assumed in business acquisitions are measured initially at their fair values at the acquisition date. The fair value of an asset or liability represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. An independent valuer was used to assist in the valuation of the Dicom Canada acquisition.

In determining the fair value of the intangible assets acquired, risk-adjusted future cash flows discounted using discount rates specific to the asset are generally used. In determining cash flows, a combination of historical data and estimates regarding revenue growth, profit margins and operating cash flows have been used.

- customer relationships were measured using estimates of future cash flows and expected customer retention rates.
- brands were measured by estimating the savings realised by owning or holding the right to use the brand name (as opposed to paying a royalty fee to a third party). This includes an estimate of the projected revenues attributable to the brand, potential royalty rates and the estimated life of the brand to a third party.
- internally developed software acquired was measured using a lost profit approach, taking into account additional software licencing costs, the replacement cost of recreating the existing technology platforms and foregone profits during a hypothetical rebuild phase.

1. Basis of preparation (continued)

- other tangible assets and liabilities were measured by estimating the current cost to purchase or replace the assets, taking into account available market data for the sale or transfer of such assets.

The excess of the consideration transferred over the fair value of the net identifiable assets acquired is recorded as goodwill. The Group has one year from the acquisition date to re-measure the fair values of the acquired assets and liabilities and the resulting goodwill if new information is obtained relating to conditions that existed at the acquisition date.

Acquisition related costs are expensed as incurred. Details of the Dicom Canada acquisition during the period are disclosed in Note 10.

Goodwill impairment – GLS US businesses cash generating unit (CGU)

In assessing whether there has been any impairment of goodwill, Management determines whether the CGU carrying value is higher than the recoverable amount of the underlying CGU. The recoverable amount is the higher of a CGU's fair value less costs to sell (realisable value) and value-in-use. In the case of goodwill allocated to the GLS US businesses CGU, the realisable value is estimated using five year forecast cash flows. Details of the impairment review of the CGU and the relevant estimates and assumptions are included in Note 11.

Provisions

Due to the nature of provisions, a significant part of their determination is based upon estimates and/or judgements concerning the future. The industrial diseases claims provision is considered to be the area where the application of judgement has the most significant impact. The industrial diseases claims provision arose as a result of a Court of Appeal's judgement in 2010 and relates to individuals who were employed in the General Post Office Telecommunications division prior to October 1981.

The provision requires estimates to be made of the likely volume and cost of future claims, as well as the discount rate to be applied to these, and is based on the best information available as at the year end, which incorporates independent expert actuarial advice. The result of a 0.5 per cent decrease in the discount rate estimate would be a £6 million increase in the overall industrial diseases provision. Any income statement movements arising from changes in accounting estimates are disclosed as an operating specific item.

Critical accounting judgements

Contingent liabilities – Ofcom fine

Management considered Ofcom's decision following its investigation into whether Royal Mail had breached competition law, the subsequent imposition of a fine and Royal Mail's appeal of Ofcom's decision and fine. Following this assessment, which included extensive legal review, both internal and external to the Group, Management's view is that it is not probable that Royal Mail will be required to pay the fine and, accordingly, no liability should be recognised in these financial statements. Further details are provided in Note 12.

Pension settlement – Royal Mail Senior Executives Pension Plan (RMSEPP) buy-in

During the period the RMSEPP Trustees purchased a further buy-in insurance policy in respect of all remaining pensioners and deferred members of the RMSEPP. Alongside previous insurance policies purchased, this means that substantially all the liabilities of the scheme are now covered by insurance policies. The new policy also includes provisions for the possible issue of individual policies in respect of individual members at the future discretion of the RMSEPP Trustees. From an assessment of the nature of the policies in place, Management have applied judgement to conclude that the purchase of this additional insurance policy should be treated as a settlement under IAS 19.

2. Segment information

The Group's operating segments are based on geographic business units whose primary services and products relate to the delivery of parcels and letters. These segments are evaluated regularly by the Royal Mail plc Board – the Chief Operating Decision Maker (CODM) as defined by IFRS 8 'Operating Segments' – in deciding how to allocate resources and assess performance.

A key measure of segment performance is operating profit before transformation costs (used internally for the Corporate Balanced Scorecard). This measure of performance is disclosed on an 'adjusted' basis, a non-IFRS measure, excluding specific items and the pension charge to cash difference adjustment (see APMs section). This is consistent with how financial performance is measured internally and reported to the CODM.

Segment revenues have been attributed to the respective countries based on the primary location of the service performed. Transfer prices between segments are set at an arm's length/fair value on the basis of charges reached through negotiation between the relevant business units that form part of the segments.

53 weeks 2019	Adjusted				Specific items and pension adjustment[1]	Reported
Continuing operations	**UKPIL (UK operations) £m**	**GLS (Non-UK operations) £m**	**Eliminations[2] £m**	**Group £m**	**£m**	**Group £m**
Revenue	7,732	2,888	(39)	10,581	–	10,581
People costs	(5,045)	(667)	–	(5,712)	(70)	(5,782)
Non-people costs	(2,320)	(2,044)	39	(4,325)	–	(4,325)
Operating profit before transformation costs	367	177	–	544	(70)	474
Transformation costs	(133)	–	–	(133)	–	(133)
Operating profit after transformation costs	234	177	–	411	(70)	341
Operating specific items						
RMSEPP buy-in settlement	–	–	–	–	(64)	(64)
Employee Free Shares charge	–	–	–	–	(22)	(22)
Impairment/legacy/other costs	–	–	–	–	(75)	(75)
Amortisation of intangible assets in acquisitions	–	–	–	–	(20)	(20)
Operating profit	234	177	–	411	(251)	160
Profit on disposal of property, plant and equipment (non-operating specific item)	–	–	–	–	15	15
Earnings before interest and tax	234	177	–	411	(236)	175
Finance costs	(17)	(1)	–	(18)	–	(18)
Finance income	3	2	–	5	–	5
Inter-segment interest	9	(9)	–	–	–	–
Net pension interest (non-operating specific item)	–	–	–	–	79	79
Profit before tax	229	169	–	398	(157)	241

1 A net £1 million credit for specific items and a £70 million charge for the pension charge to cash difference adjustment relate to UKPIL. An £88 million charge for specific items relates to GLS, of which £68 million relates to the impairment of the GLS US businesses.

2 Eliminations relate to intra-Group revenue from trading between UKPIL and GLS. This was due to Parcelforce Worldwide being GLS's partner in the UK. As the amounts involved have no impact on Group profit before tax and are not material, the prior year has not been adjusted.

2. Segment information (continued)

52 weeks 2018	Adjusted			Specific items and pension adjustment[3]	Reported
Continuing operations	UKPIL (UK operations) £m	GLS (Non-UK operations) £m	Group £m	£m	Group £m
Revenue	7,615	2,557	10,172	–	10,172
People costs	(4,908)	(608)	(5,516)	(458)	(5,974)
Non-people costs	(2,204)	(1,758)	(3,962)	–	(3,962)
Operating profit before transformation costs	503	191	694	(458)	236
Transformation costs	(113)	–	(113)	–	(113)
Operating profit after transformation costs	390	191	581	(458)	123
Operating specific items					
Employee Free Shares charge	–	–	–	(33)	(33)
Legacy/other costs	–	–	–	(8)	(8)
Amortisation of intangible assets in acquisitions	–	–	–	(16)	(16)
Operating profit	390	191	581	(515)	66
Profit on disposal of property, plant and equipment (non-operating specific item)	–	–	–	71	71
Earnings before interest and tax	390	191	581	(444)	137
Finance costs	(18)	(1)	(19)	–	(19)
Finance income	1	2	3	–	3
Inter-segment interest	5	(5)	–	–	–
Net pension interest (non-operating specific item)	–	–	–	91	91
Profit before tax	378	187	565	(353)	212

[3] A net £119 million credit for specific items and a £458 million charge for the pension charge to cash difference adjustment relate to UKPIL. A £14 million charge for specific items relates to GLS.

The depreciation and amortisation below are included within operating profit before transformation costs in the income statement.

The non-current assets below exclude financial assets, retirement benefit surplus and deferred tax and are included within non-current assets on the balance sheet.

53 weeks 2019	**UKPIL (UK operations) £m**	**GLS (Non-UK Operations) £m**	**Total £m**
Depreciation	**(213)**	**(45)**	**(258)**
Amortisation of intangible assets (mainly software)[4]	**(121)**	**(32)**	**(153)**
Non-current assets	**2,103**	**991**	**3,094**

2. Segment information (continued)

52 weeks 2018	UKPIL (UK operations) £m	GLS (Non-UK Operations) £m	Total £m
Depreciation	(207)	(39)	(246)
Amortisation of intangible assets (mainly software)[4]	(83)	(28)	(111)
Non-current assets	2,160	806	2,966

[4] Includes £20 million (2017-18: £16 million) presented as an operating specific item in the income statement.

3. Revenue

53 weeks 2019	**UKPIL £m**	**GLS £m**	**Intragroup Revenue £m**	**Group £m**
Letters and other revenue	**2,963**	**–**	**–**	**2,963**
Marketing mail	**1,012**	**–**	**–**	**1,012**
Parcels	**3,757**	**2,888**	**(39)**	**6,606**
Total	**7,732**	**2,888**	**(39)**	**10,581**

52 weeks 2018	UKPIL £m	GLS £m	Group £m
Letters and other revenue	3,051	–	3,051
Marketing mail	1,101	–	1,101
Parcels	3,463	2,557	6,020
Total	7,615	2,557	10,172

During the year, around £280 million (2017-18: £290 million) revenue was recognised which was previously held as a deferred revenue balance at 25 March 2018 (2017–18: 26 March 2017). This balance mainly relates to stamps held and not yet used by customers and is recognised as 'advance customer payments' within current trade and other payables on the Group balance sheet.

4. Operating costs

Operating profit before transformation costs is stated after charging the following operating costs:

	53 weeks 2019 £m	52 weeks 2018 £m
People costs (see Note 5)	**(5,782)**	(5,974)
Distribution and conveyance costs		
Charges from overseas postal administrations	**(348)**	(342)
Fuel costs	**(156)**	(147)
Operating lease costs – vehicles	**(25)**	(21)
Short-term vehicle hire	**(33)**	(28)
Infrastructure costs		
Depreciation, amortisation and impairment	**(391)**	(341)
Charge for property, plant and equipment	(258)	(246)
Charge for intangible assets [1]	(133)	(95)

[1] Excludes £20 million (2017-18: £16 million) amortisation of intangible assets in acquisitions, presented as an operating specific item in the income statement.

	53 weeks 2019 £m	52 weeks 2018 £m
Other operating costs		
Post Office Limited charges	**(354)**	(341)
Inventory expensed	**(34)**	(35)
Operating lease costs - property, plant and equipment	**(165)**	(152)

Regulatory body costs

The following disclosure is relevant in understanding the extent of ongoing compliance costs in relation to the regulation of the Group.

	53 weeks 2019 £m	52 weeks 2018 £m
Ofcom administrative charge	**(3)**	(3)
Citizens Advice/Consumer Council for Northern Ireland	**(2)**	(2)
Total	**(5)**	(5)

4. Operating costs (continued)

Statutory audit costs

Disclosure of statutory audit costs is a requirement of the Companies Act 2006.

Auditor's fees	53 weeks 2019 £000	52 weeks 2018 £000
Audit of Group statutory financial statements	**(2,384)**	(1,946)
Other fees to Auditor:		
Review of the interim financial information	**(215)**	(200)
Regulatory audit	**(125)**	(125)
Other assurance	**-**	(72)
Total	**(2,724)**	(2,343)

The 2018-19 fees relate to the services of the Group's appointed auditor KPMG LLP which, in addition to the above amounts, was paid by the respective Trustees, £165,000 for the audit of the Royal Mail Pension Plan (2017-18: £98,000) and £35,000 for the audit of the Royal Mail Defined Contribution Plan (2017-18: £31,000).

5. People information

People costs

		53 weeks 2019 £m	52 weeks 2018 £m
Wages and salaries		**(4,666)**	(4,506)
UKPIL		(4,086)	(3,976)
GLS		(580)	(530)
Pensions (see Note 9)		**(635)**	(1,006)
Defined benefit UK		(374)	(791)
Defined contribution UK		(82)	(57)
Defined benefit and defined contribution Pension Salary Exchange (PSE) UK		(172)	(151)
GLS		(7)	(7)
Social security		**(481)**	(462)
UKPIL		(401)	(391)
GLS		(80)	(71)
Total people costs		**(5,782)**	(5,974)
Defined benefit pension plan rates:			
Income statement	– RMPP 6 days to 31 March 2018	**41.0%**	41.1%
	– DBCBS from 1 April 2018	**18.9%**	–
Cash flow	- RMPP 6 days to 31 March 2018	**17.1%**	17.1%
	– DBCBS from 1 April 2018	**15.6%**	–
Defined contribution pension plan average rate:			
Income statement and cash flow[1]		**8.0%**	6.3%

[1] Employer contribution rates are two per cent for employees in the entry level category and ten per cent for the majority of those in the standard level category. For the remaining standard level employees, the employer contribution is either eight or nine per cent, depending on the employees' selected contribution rate.

5. People information (continued)
People numbers

The number of people employed, expressed as both full-time equivalents and headcount, during the reporting year was as follows:

	Full-time equivalents[2]				Headcount			
	Year end		Average		Year end		Average	
	53 weeks 2019	52 weeks 2018	**53 weeks 2019**	52 weeks 2018	**53 weeks 2019**	52 weeks 2018	**53 weeks 2019**	52 weeks 2018
UKPIL	**147,148**	147,985	**149,212**	149,281	**142,757**	141,162	**141,792**	141,034
GLS	**14,969**	13,866	**14,954**	13,694	**19,221**	17,955	**19,198**	17,812
Total	**162,117**	161,851	**164,166**	162,975	**161,978**	159,117	**160,990**	158,846

2 These people numbers relate to the total number of paid hours (including part-time, full-time and agency hours) divided by the number of standard full-time working hours in the same year.

Directors' remuneration

	53 weeks 2019 £000	52 weeks 2018 £000
Directors' remuneration[3]	**(2,300)**	(3,257)
Amounts earned under Long-Term Incentive Plans (LTIP)	**-**	(356)
Number of Directors accruing benefits under defined benefit plans	**-**	–
Number of Directors accruing benefits under defined contribution plans	**2**	2

3 These amounts include any cash supplements received in lieu of pension. Details of the highest paid Director are included in the Directors' Remuneration Report in the Annual Report and Financial Statements.

6. Taxation

	53 weeks 2019 £m	52 weeks 2018 £m
Tax (charged)/credited in the income statement		
Current income tax:		
Current UK income tax charge	**(21)**	(45)
Foreign tax	**(48)**	(51)
Current income tax charge	**(69)**	(96)
Amounts over-provided in previous years	**5**	–
Total current income tax charge	**(64)**	(96)
Deferred income tax:		
Effect of change in tax rates	**–**	(4)
Relating to origination and reversal of temporary differences	**3**	133
Amounts (under)/over-provided in previous years	**(5)**	13
Total deferred income tax (charge)/credit	**(2)**	142
Tax (charge)/credit in the consolidated income statement	**(66)**	46
Tax credited/(charged) to other comprehensive income		
Current tax:		
Tax credit on foreign currency translation	**1**	–
Deferred tax:		
Tax credit/(charge) in relation to remeasurement gains of the defined benefit pension schemes	**2**	(2)
Tax credit in relation to the change in manner of recovery of the defined benefit pension surplus	**–**	478
Tax credit/(charge) on revaluation of cash flow hedges	**1**	(1)
Total deferred income tax credit	**3**	475
Total tax credit in the consolidated statement of other comprehensive income	**4**	475

In addition to the amount charged to the income statement and other comprehensive income, the following amount relating to tax has been recognised directly in equity:

	53 weeks 2019 £m	52 weeks 2018 £m
Deferred tax:		
Change in estimated excess tax deductions related to share-based payments	**(1)**	5
Total deferred income tax (charge)/credit recognised directly in equity	**(1)**	5

6. Taxation (continued)

Reconciliation of the total tax (charge)/credit

A reconciliation of the tax (charge)/credit in the income statement and the UK rate of corporation tax applied to accounting profit for the 53 weeks ended 31 March 2019 and 52 weeks ended 25 March 2018 is shown below.

	53 weeks 2019 £m	52 weeks 2018 £m
Profit before tax	**241**	212
At UK statutory rate of corporation tax of 19% (2017-18: 19%)	**(46)**	(40)
Effect of different tax rates on non-UK profits and losses	**3**	(7)
Tax under-provided in previous years[1]	**(3)**	–
Non-deductible expenses	**(7)**	(7)
Impairment of goodwill	**(13)**	–
Tax reliefs and incentives (including previous years)	**6**	12
Tax effect of property disposals (including previous years)	**5**	18
Tax effect of closure of Royal Mail Pension Plan to future accrual	**(2)**	78
Net pension interest credit	**15**	–
Buy-in insurance policy for the RMSEPP	**(12)**	–
Uncertain current tax positions	**1**	(2)
Net increase in tax charge resulting from non-recognition of certain deferred tax assets	**(8)**	(3)
Share-based payments - deferred tax-only adjustments	**(5)**	1
Effect of change in tax rates	**–**	(4)
Tax (charge)/credit in the income statement	**(66)**	46

Tax on specific items and pension adjustment

	53 weeks 2019 £m	52 weeks 2018 £m
Continuing operations	**27**	157
Total tax credit on specific items and pension adjustment	**27**	157

A tax credit on certain specific items and the pension adjustment of £27 million (2017-18: £157 million) has been recognised at statutory rates. In 2017-18, this credit amounted to £81 million along with certain tax-only adjustments totalling £76 million credit, for which no equivalent material adjustments were recognised in 2018-19.

The 2017-18 tax-only adjustments comprise the impact of the closure of the RMPP to future accrual of £78 million credit; the impact of property transactions of £2 million credit; and the impact of changes in tax law of £4 million charge.

[1] The tax under-provided of £3 million (2017-18: £nil) is different to the total tax underprovided in the income statement of £nil (2017-18: £13 million over-provided) as certain items have been disaggregated, specifically, tax overprovided of £2 million (2017-18: £13 million overprovided) relating to tax reliefs and incentives and tax overprovided of £1 million (2017-18: £nil) relating to the tax effect of property disposals.

6. Taxation (continued)

Deferred tax

Deferred tax by balance sheet category 53 weeks 2019	At 26 March 2018 £m	(Charged)/ credited to income statement £m	(Charged)/ credited to other comprehensive income £m	(Charged)/ credited directly to equity £m	Acquisition of subsidiaries £m	At 31 March 2019 £m
Liabilities						
Accelerated capital allowances	(3)	–	–	–	(3)	(6)
Pensions temporary differences	(1)	1	–	–	–	–
Employee share schemes	(1)	1	–	(1)	–	(1)
Intangible assets	(48)	6	–	–	(15)	(57)
Hedging derivatives temporary differences	(2)	–	1	–	–	(1)
	(55)	8	1	(1)	(18)	(65)
Jurisdictional right of offset	10	–	–	–	–	10
Deferred tax liabilities	(45)	8	1	(1)	(18)	(55)
Assets						
Deferred capital allowances	14	(8)	–	–	–	6
Pensions temporary differences	–	11	2	–	–	13
Provisions and other	19	(1)	–	–	–	18
Losses available for offset against future taxable income	48	(13)	–	–	–	35
R&D expenditure credit	1	1	–	–	–	2
	82	(10)	2	–	–	74
Jurisdictional right of offset	(10)	–	–	–	–	(10)
Deferred tax assets	72	(10)	2	–	–	64
Net deferred tax asset	27	(2)	3	(1)	(18)	9

6. Taxation (continued)

Deferred tax by balance sheet category 52 weeks 2018	At 27 March 2017 £m	(Charged)/ credited to income statement £m	(Charged)/ credited to other comprehensive income £m	(Charged)/ credited directly to equity £m	Acquisition of subsidiaries £m	R&D credit £m	Jurisdictional right of offset £m	At 25 March 2018 £m
Liabilities								
Accelerated capital allowances	(16)	13	–	–	–	–	–	(3)
Pensions temporary differences	(647)	170	476	–	–	–	–	(1)
Employee share schemes	(11)	5	–	5	–	–	–	(1)
Intangible assets	(36)	(9)	–	–	(3)	–	–	(48)
Hedging derivatives temporary differences	(1)	–	(1)	–	–	–	–	(2)
	(711)	179	475	5	(3)	–	–	(55)
Jurisdictional right of offset	108	–	–	–	–		(98)	10
Deferred tax liabilities	(603)	179	475	5	(3)	–	(98)	(45)
Assets								
Deferred capital allowances	37	(23)	–	–	–	–	–	14
Provisions and other	20	(1)	–	–	–	–	–	19
Losses available for offset against future taxable income	62	(14)	–	–	–	–	–	48
R&D expenditure credit	4	1	–	–	–	(4)	–	1
	123	(37)	–	–	–	(4)	–	82
Jurisdictional right of offset	(108)	–	–	–	–	–	98	(10)
Deferred tax assets	15	(37)	–	–	–	(4)	98	72
Net deferred tax liability	(588)	142	475	5	(3)	(4)	–	27

Deferred tax assets and liabilities are offset within the same jurisdiction where the Group has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for balance sheet presentation purposes.

Deferred tax – balance sheet presentation	**At 31 March 2019 £m**	At 25 March 2018 £m
Liabilities		
GLS group	**(55)**	(45)
Deferred tax liabilities	**(55)**	(45)
Assets		
GLS group	**7**	11
Net UK position	**57**	61
Deferred tax assets	**64**	72
Net deferred tax asset	**9**	27

The deferred tax position shows a decreased overall asset in the reporting year to 31 March 2019. This decrease in the net asset is primarily resulting from the utilisation of tax losses and capital allowances and the recognition of deferred tax liabilities related to the acquisition intangibles for Dicom Canada.

6. Taxation (continued)

GLS has deferred tax assets and liabilities in various jurisdictions which cannot be offset against one another. The main elements of the liability relate to goodwill and intangible assets in GLS Germany, for which the Group has already taken tax deductions, and intangible assets in relation to acquisitions in Canada and Spain. The deferred tax liability related to intangible assets recognised on the acquisition of Golden State Overnight Delivery Services Inc and Postal Express Inc has been written down in line with the US impairment.

At 31 March 2019, the Group had unrecognised tax losses and temporary differences of £333 million (2017-18: £327 million) with a tax value of £85 million (2017-18: £79 million). Unrecognised tax losses comprises £63 million (2017-18: £55 million) relating to losses of £215 million (2017-18: £188 million) in GLS, that are available for offset against future profits if generated in the relevant GLS companies, and £9 million (2017-18: £15 million) in relation to £51 million (2017-18: £90 million) of historical UK non-trading and capital losses carried forward. Other unrecognised amounts comprises £5 million (2017-18: £nil) relating to GLS other temporary differences of £18 million (2017-18: £nil) and £8 million (2017-18: £8 million) relating to UK other temporary differences of £49 million (2017-18: £49 million). The Group has not recognised these deferred tax assets on the basis that it is not sufficiently certain of its capacity to utilise them in the future.

The Group also has temporary differences in respect of £191 million (2017-18: £202 million) of capital losses, the tax effect of which is £32 million (2017-18: £34 million) in respect of assets previously qualifying for industrial buildings allowances. Further temporary differences exist in relation to £421 million (2017-18: £406 million) of gains for which rollover relief has been claimed, the tax effect of which is £72 million (2017-18: £69 million). No tax liability would be expected to crystallise on the basis that, were the assets (into which the gains have been rolled over) to be sold at their residual values, no capital gain would arise.

Changes to UK corporation tax rate

The UK corporation tax rate is 19 per cent and will reduce to 17 per cent on 1 April 2020. In accordance with accounting standards, the effect of this rate reduction on deferred tax balances has been reflected in these financial statements, dependent upon when temporary differences are expected to reverse.

7. Earnings per share

	53 weeks 2019			52 weeks 2018		
	Reported	**Specific items and pension adjustment[1]**	**Adjusted**	Reported	Specific items and pension adjustment[1]	Adjusted
Attributable to equity holders of the parent Company						
Profit for the year (£million)	**175**	**(130)**	**305**	259	(196)	455
Weighted average number of shares issued (million)	**1,000**	**n/a**	**1,000**	999	n/a	999
Basic earnings per share (pence)	**17.5**	**n/a**	**30.5**	25.9	n/a	45.5
Diluted earnings per share (pence)	**17.5**	**n/a**	**30.5**	25.7	n/a	45.2

[1] Further details of the specific items and pension adjustment total can be found in the Financial Review.

The diluted earnings per share for the year ended 31 March 2019 is based on a weighted average number of shares of 1,000,375,291 (2017-18: 1,005,852,049) to take account of the potential issue of 445,534 ordinary shares resulting from the Deferred Share Bonus Plans (DSBP) for certain senior management and 88 ordinary shares resulting from the Save As You Earn (SAYE) scheme.

The 70,331 shares held in an Employee Benefit Trust for the settlement of options and awards to current and former employees are treated as treasury shares for accounting purposes. The Company, however, does not hold any shares in treasury.

8. Dividends

Dividends on ordinary shares	53 weeks 2019 Pence per share	52 weeks 2018 Pence per share	53 weeks 2019 £m	52 weeks 2018 £m
Final dividends paid	**16.3**	15.6	**162**	154
Interim dividends paid	**8.0**	7.7	**80**	77
Total dividends paid	**24.3**	23.3	**242**	231

In addition to the above dividends paid, the Directors are proposing a final dividend for the year ended 31 March 2019 of 17.0 pence per share, equivalent to £170 million. This dividend will be paid to shareholders on 4 September 2019 subject to approval at the AGM to be held on 18 July 2019.

9. Retirement benefit plans

Summary pension information

	53 weeks 2019 £m	52 weeks 2018 £m
Ongoing UK pension service costs		
UK defined benefit plans (including administration costs)[1]	**(374)**	(791)
UK defined contribution plan	**(82)**	(57)
UK defined benefit and defined contribution plans' Pension Salary Exchange (PSE) employer contributions[2]	**(172)**	(151)
Total UK ongoing pension service costs	**(628)**	(999)
GLS pension costs accounted for on a defined contribution basis	**(7)**	(7)
Total Group ongoing pension service costs	**(635)**	(1,006)
Cash flows relating to ongoing pension service costs		
UK defined benefit plans' employer contributions[3]	**(304)**	(321)
Defined contribution plans' employer contributions	**(89)**	(64)
UK defined benefit and defined contribution plans' PSE employer contributions	**(172)**	(151)
Total Group cash flows relating to ongoing pension service costs	**(565)**	(536)
RMSEPP deficit correction payments	**(2)**	(10)
Pension-related accruals (timing difference)	**2**	(2)
Pension charge to cash difference adjustment	**(70)**	(458)

	At 31 March 2019 '000	At 25 March 2018 '000
UK pension plans – active members		
UK defined benefit plan	**83**	83
UK defined contribution plan	**51**	47
Total	**134**	130

1 These pension service costs are charged to the income statement. They represent the cost (as a percentage of pensionable payroll – 41.0 per cent (2017-18: 41.1 per cent) for the RMPP until 31 March 2018 and 18.9 per cent for the DBCBS from 1 April 2018) of the increase in the defined benefit obligation due to members earning one more year's worth of pension benefits. They are calculated in accordance with IAS 19 and are based on market yields (high quality corporate bonds and inflation) at the beginning of the reporting year. Pensions administration costs for the RMPP of £8 million (2017-18: £7 million) and the DBCBS of £2 million (2017-18: £nil) continue to be included within the Group's ongoing UK pension service costs.

2 Eligible employees who are enrolled into PSE opt out of making employee contributions to their pension and the Group makes additional contributions in return for a reduction in basic pay.

3 The employer contribution cash flow rate forms part of the payroll expense and is paid in respect of the RMPP (17.1 per cent to 31 March 2018, and the prior period) and the DBCBS (15.6 per cent from 1 April 2018). This includes payments into RMPP pension escrow investments. The contribution rate for RMPP is set following each actuarial funding valuation, usually every three years. These actuarial valuations are required to be carried out on assumptions determined by the Trustee and agreed by Royal Mail, and will be required in respect of the DBCBS.

9. Retirement benefit plans (continued)

In the period, the Group operated the following plans.

UK Defined Contribution plan

Royal Mail Group Limited, the Company's main operating subsidiary, operates the Royal Mail Defined Contribution Plan (RMDCP). This plan was launched in April 2009 and is open to employees who joined the Group from 31 March 2008, following closure of the RMPP to new members. Improvements to the RMDCP were made during the year and further details can be found in the Financial Review.

Ongoing UK defined contribution plan costs have increased from £93 million in 2017-18 to £135 million (including £54 million PSE costs). This is mainly due to the continued increase in plan membership and an increase in the average employer's contribution rate from 6.3 per cent in 2017-18 to 8.0 per cent in 2018-19 following an increase in Company contributions from 1 April 2018.

UK Defined Benefit plans

Royal Mail Pension Plan (RMPP)

The RMPP is funded by the payment of contributions to separate trustee administered funds. The RMPP includes sections A, B and C, each with different terms and conditions.

- Section A is for members (or beneficiaries of members) who joined before 1 December 1971;
- Section B is for members (or beneficiaries of members) who joined on or after 1 December 1971 and before 1 April 1987, or for members of Section A who chose to receive Section B benefits; and
- Section C is for members (or beneficiaries of members) who joined on or after 1 April 1987 and before 1 April 2008.

Section A/B members built up a pension of 1/80th of pensionable salary plus a tax-free lump sum of 3/80ths of pensionable salary for each year of pensionable service, until 31 March 2018.

Section C members built up a pension of 1/60th of pensionable salary for each year of pensionable service, until 31 March 2018. If they want to take a tax-free lump sum at retirement they do so by exchanging some of their pension.

From 1 April 2018, Section A, B and C members began building up benefits on a DBCBS basis.

Royal Mail Pensions Trustees Limited acts as the corporate Trustee to the RMPP. Within the Trustee, there is a Trustee Board of nine nominated Trustee Directors. The Trustee Board is supported by an executive team of pension management professionals. They provide day-to-day plan management, advise the Trustee on its responsibilities and ensure that decisions are fully implemented.

The Trustee has several responsibilities. It must always act in the best interests of all RMPP beneficiaries – including active members, deferred members, pensioners and beneficiaries. Specifically, it must pay all benefits as they fall due under the Trust Deed and Rules. The Trustee is responsible for:

- monitoring the RMPP – to help protect benefits, the Trustee monitors the financial strength of the participating employers;
- investing contributions – the Trustee invests the member and employer contributions in a mix of equities, bonds, property and other investments including derivatives. It holds the contributions and investments on behalf of the members; and
- keeping members informed – the Trustee sends active members an annual benefit illustration together with a summary of the RMPP's annual report and accounts.

One week of RMPP[4] service contributions was paid during 2018-19 up to when the scheme closed on 31 March 2018. This payment was paid at 17.1 per cent in accordance with the 8 May 2017 Schedule of Contributions. As the March 2015 valuation continued to show the scheme in surplus, no deficit correction payments are expected to be made.

[4] Any references to the RMPP relate to the scheme's defined benefit pension liabilities built up to 31 March 2018. Members built up DBCBS benefits from 1 April 2018.

9. Retirement benefit plans (continued)

An agreement has been made with the Pension Trustee to ringfence certain employer contributions in an escrow arrangement in order to give the Trustee and the Company more flexibility over how these assets are best used for the benefit of members in future. These contributions are not considered to be Plan assets as the Trustee does not have control over the assets.

Defined Benefit Cash Balance Scheme (DBCBS)

A new Defined Benefit Cash Balance Scheme (DBCBS) has been put in place from 1 April 2018. This is a transitional arrangement until the proposed Collective Defined Contribution (CDC) scheme can be established. Section F of the RMPP is for the RMDCP members who became eligible to join the RMPP and build up DBCBS benefits from 1 April 2018. RMPP section A, B and C members accrue benefits under the DBCBS from 1 April 2018.

The Company signed a new Schedule of Contributions on 27 March 2018. This covers the period of five years from the date of certification of the schedule i.e. until March 2023. In accordance with this schedule, the Company is required to make payments totalling 15.6 per cent per annum of pensionable payroll in respect of DBCBS.

Royal Mail Senior Executives Pension Plan (RMSEPP)

Royal Mail Group Limited also contributes to a smaller defined benefit plan for executives: RMSEPP. This closed in December 2012 to future accrual, therefore the Group makes no regular future service contributions. In accordance with the Schedule of Contributions agreed as part of the 2018 triennial valuation, a final deficit payment of £1 million was paid in 2018-19, together with £1 million in respect of death-in-service lump sum benefits and administration expenses. In accordance with the new Schedule of Contributions signed on 25 March 2019, £500,000 per annum is due to be paid for the period 1 April 2019 to 31 March 2025.

On 21 September 2018, the RMSEPP Trustees purchased a further buy-in insurance policy in respect of all remaining pensioners and deferred members. This insurance policy, alongside the previous insurance policy purchased in April 2016, means that substantially all the liabilities of the scheme are now covered by insurance policies. As with the previous insurance policy purchased in April 2016, this policy is considered an asset of the RMSEPP and does not confer any rights to individual members. This insurance policy includes provisions for the possible issue of individual policies in respect of individual members at the future discretion of the RMSEPP Trustees. After consideration of the facts outlined above, Management has concluded that the purchase of this further insurance policy should be treated as a settlement. The difference between the IAS 19 surplus before and after the transaction has resulted in £64 million being charged to the income statement as an operating specific item.

All benefit payments due from the RMSEPP remain unchanged. The insurance policy exactly matches the value and timing of the benefits payable under the RMSEPP (for the remaining pensioners and deferred members) and the fair value is deemed to be the present value of the related obligation. The total value[5] of the buy-in annuity policies in place is £335 million (March 2018: £148 million) and is included as a pension asset and a pension liability at 31 March 2019.

A liability of £2 million (2017-18: £2 million) has been recognised for future payment of pension benefits to a past Director.

In 2019-20 the Company expects to continue to contribute around £400 million in respect of all UK pension schemes.

Accounting and actuarial funding surplus position (RMPP, RMSEPP and DBCBS)

In addition to the accounting valuations calculated in accordance with IAS 19, actuarial funding valuations are carried out every three years by actuaries commissioned by trustees for purposes of calculating contributions and funding requirements. The main difference between the accounting and actuarial funding valuations is that different rates are used to discount the projected scheme liabilities. The accounting valuation uses yields on high quality corporate bonds and the actuarial funding valuation uses gilt yields. As the accounting discount rate is higher than the actuarial funding discount rate, this leads to a lower computed liability. The triennial valuation of the RMPP at 31 March 2018 is still in progress. The actuarial funding position at that date will not be known until the actuarial valuation has been completed, with the results being very sensitive to the assumptions adopted at that date. However, based on a set of assumptions which we believe could form the basis for the March 2018 valuation and then rolled forward, the RMPP actuarial surplus at 31 March 2019 was estimated to be around £50 million (at 31 March 2018: £100 million). The accounting liabilities have been based off of the preliminary results of the 31 March 2018 valuation rolled forward and use certain assumptions that are expected to be consistent with funding valuation once finalised. As the actuarial funding figures are based on estimates these are subject to change once the funding valuation has been finalised. The full funding valuation is expected to be concluded by the statutory deadline of 30 June 2019. The DBCBS will be subject to triennial actuarial valuations in the future. Below is a summary of the combined plans' assets and liabilities on an accounting (IAS 19) and actuarial funding basis.

9. Retirement benefit plans (continued)

	DBCBS Accounting (IAS 19)	DBCBS Actuarial funding	RMPP and RMSEPP Accounting (IAS 19)		RMPP and RMSEPP Actuarial funding	
	At 31 March 2019 £m	**At 31 March 2019 £m**	**At 31 March 2019 £m**	At 25 March 2018 £m	**At 31 March 2019 £m**	**At 31 March 2018 £m**
Fair value of plans' assets (10(b) below)[6]	**402**	**402**	**10,803**	10,361	**10,877**	**10,461**
Present value of plans' liabilities	**(474)**	**(393)**	**(7,097)**	(7,038)	**(10,818)**	**(10,318)**
Surplus in plans (pre withholding tax payable)[7]	**(72)**	**9**	**3,706**	3,323	**59**	**143**
Withholding tax payable	**n/a**	**n/a**	**(1,298)**	(1,160)	**n/a**	**n/a**
(Deficit) /surplus in plans[8]	**(72)**	**9**	**2,408**	2,163	**59**	**143**

5 In accordance with IAS 19.
6 Difference between accounting and actuarial funding asset fair values on 25 and 31 March 2018 arises from the different year end dates used for the valuation of the assets, and in both years due to the valuation of the RMSEPP buy-in assets under both methods.
7 Any reference to a withholding tax adjustment relates to withholding tax payable on distribution of a pension surplus.
8 On an actuarial funding basis, the excess of DBCBS assets over liabilities is a result of the risk reserve.

There is no element of the present value of the plans' liabilities above that arises from plans that are wholly unfunded.

Having taken legal advice with regard to the rights of the Company under the trust deeds and rules, the Directors do believe there is a right to recognise a pension surplus on an accounting basis. The Directors do not believe that the surplus in the RMPP on an accounting basis will result in a surplus on an actuarial funding basis. However, the Directors are required to account for the plans based on the Company's legal right to benefit from a surplus, using long-term actuarial funding assumptions current at the reporting date, as required by IFRS. As the Group has a legal right to benefit from a surplus in the RMPP and RMSEPP, under IAS 19 and IFRIC 14, it must recognise the economic benefit it considers to arise from either a reduction to its future contributions or a refund of the surplus. This is a technical adjustment made on an accounting basis. There is no cash benefit from the surplus.

The legal right to benefit from a surplus has not changed as a result of the Company's decision to close the RMPP from 31 March 2018. However, since this date, any surplus is no longer considered to be recoverable as a reduction to future employer contributions. Therefore, at 31 March 2019 the surplus is considered to be available as a refund. This surplus is presented net of a withholding tax adjustment of £1,294 million (at 25 March 2018: £1,134 million) on the balance sheet, which represents the tax that would be withheld on the surplus amount.

Included in the IAS 19 figures in the table above is a RMSEPP surplus at 31 March 2019 of £10 million (pre-withholding tax payable) (at 25 March 2018: £73 million surplus).

As the RMSEPP is closed to future accrual, the surplus is considered to be available as a refund as per IFRIC 14 and, as such, is shown net of a withholding tax adjustment of £4 million (at 25 March 2018: £26 million) on the balance sheet which represents the tax that would be withheld on the surplus amount.

Guaranteed Minimum Pensions (GMP)

The High Court has recently ruled that pension schemes have to address the issue of unequal Guaranteed Minimum Pensions (GMP). From Royal Mail's perspective, the transfer of RMPP's historical pension liabilities to Government in 2012, in accordance with the Postal Services act 2011, included all of the Plan's GMP liabilities. The requirement to remove the inequality in former RMPP benefits deriving from GMPs therefore rests with Government.

The RMSEPP, however, does still have its GMP liabilities and will be required to take action to equalise benefits. The Trustees' actuaries estimate that the cost of GMP equalisation will be less than £0.5 million. This is still subject to further legal clarification on exact equalisation requirements, and also to the actual equalisation approach adopted.

9. Retirement benefit plans (continued)

The following disclosures relate to the major assumptions, sensitivities, assets and liabilities in the RMPP, RMSEPP and DBCBS assumptions.

a) Major long-term assumptions used for accounting (IAS 19) purposes – RMPP, RMSEPP and DBCBS

IAS 19 assumptions will be derived separately for the legacy RMPP and DBCBS, in particular taking into account the different weighted durations of the future benefit payments. The RMSEPP will continue in line with legacy RMPP benefits.

The major assumptions used to calculate the accounting position of the pension plans are as follows:

	At 31 March 2019	At 25 March 2018
Retail Price Index (RPI)	**3.2%**	3.1%
Consumer Price Index (CPI)	**2.2%**	2.1%
Discount rate – RMPP/RMSEPP[9]		
– nominal	**2.4%**	2.4%
– real (nominal less RPI)	**(0.8%)**	(0.7%)
Discount rate – DBCBS[10]		
– nominal	**2.2%**	2.4%
– real (nominal less RPI)	**(1.0%)**	(0.7%)
Rate of increase in pensionable salaries[11]	**RPI-0.1%**	RPI-0.1%
Rate of increase for deferred pensions	**CPI**	CPI
Rate of pension increases – RMPP Sections A/B	**CPI**	CPI
Rate of pension increases – RMPP Section C[11]	**RPI-0.1%**	RPI-0.1%
Rate of pension increases – RMSEPP members transferred from Section A or B of RMPP	**CPI**	CPI
Rate of pension increases – RMSEPP all other members[11]	**RPI-0.1%**	RPI-0.1%
Rate of pension increases – DBCBS benefits	**CPI+2.0%**	CPI+2.0%
Life expectancy from age 60 – for a current 40/60 year old male RMPP member	**28/26 years**	28/26 years
Life expectancy from age 60 – for a current 40/60 year old female RMPP member	**29/27 years**	31/29 years

[9] The discount rate reflects the average duration of the RMPP of around 27 years and RMSEPP of around 20 years.

[10] The discount rate reflects the average duration of the DBCBS benefits of 11 ½ years. The pension service cost applicable from 1 April 2018 is based on 25 March 2018 assumptions.

[11] The rate of increase in salaries, and the rate of pension increase for Section C members (who joined the RMPP on or after April 1987) and RMSEPP 'all other members', is capped at five per cent, which results in the average long-term pension increase assumption being 10 basis points lower than the RPI long-term assumption.

Mortality

The RMPP assumptions are based on the latest Self-Administered Pension Scheme (SAPS) S2 mortality tables with appropriate scaling factors (118 per cent for male pensioners and 116 per cent for female pensioners). Future improvements are based on the CMI 2017 core projections (smoothing factor 8.0) with a long-term trend of 1.5 per cent per annum. These assumptions were adopted following a recent mortality study undertaken as part of the March 18 actuarial valuation.

9. Retirement benefit plans (continued)

Sensitivity analysis for RMPP and DBCBS liabilities

The RMPP and DBCBS liabilities are sensitive to changes in key assumptions. The potential impact of the largest sensitivities on the RMPP and DBCBS liabilities is as follows:

Key assumption change	Potential increase in DBCBS liabilities £m	Potential increase in RMPP liabilities £m
Additional one year of life expectancy	–	270
Increase in inflation rate (both RPI and CPI simultaneously) of 0.1% p.a.	6	180
Decrease in discount rate of 0.1% p.a.	6	180
Increase in CPI assumption (assuming RPI remains constant) of 0.1% p.a.	6	35
Increase in constructive obligation of 0.1% p.a.	6	–

This sensitivity analysis has been determined based on a method that assesses the impact on the defined benefit obligation, resulting from reasonable changes in key assumptions occurring at the end of the reporting year. Changes inverse to those in the table (e.g. an increase in discount rate) would have the opposite effect on liabilities.

b) RMPP, RMSEPP and DBCBS assets

	At 31 March 2019			At 25 March 2018[12]		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equities						
UK	10	–	10	12	3	15
Overseas	319	74	393	385	121	506
Bonds						
Fixed interest – UK	268	69	337	297	72	369
– Overseas	56	394	450	99	584	683
Index linked – UK	–	–	–	175	–	175
Pooled investments						
Absolute return	–	649	649	–	396	396
Equity	–	152	152	–	61	61
Private equity	–	80	80	–	53	53
Fixed interest	–	501	501	–	467	467
Private debt	–	202	202	–	147	147
Property	–	52	52	–	52	52
Liability-driven investment	7,126	270	7,396	6,296	386	6,682
Property (UK)	–	295	295	–	271	271
Cash and cash equivalents	385	–	385	426	–	426
Other	1	(6)	(5)	2	–	2
Derivatives	(7)	(20)	(27)	(113)	21	(92)
RMSEPP buy-in annuity policies	–	335	335	–	148	148
Total plans' assets	8,158	3,047	11,205	7,579	2,782	10,361

[12] Restated following re-interpretation of the classifications, including the allocation between quoted and unquoted assets.

There were no open equity futures or options derivatives within this portfolio at 31 March 2019 (2017-18: £nil). £7 billion (2017-18: £6 billion) of HM Government bonds are primarily included in Unit Trusts above. The plans' assets do not include property or assets used by the Group, or shares of the Royal Mail plc at 31 March 2019 (2017-18: £84,000 approximate market value of shares).

Risk exposure and investment strategy

The investment strategy of the RMPP Trustee aims to safeguard the assets of the Plan and to provide, together with contributions, the financial resource from which benefits are paid. Investments are inevitably exposed to risks. The risks inherent in the investment markets are partially mitigated by pursuing a widely diversified approach across asset classes and investment managers. The RMPP uses derivatives (such as swaps, forwards and options, from time to time) to reduce risks whilst maintaining expected investment returns. The RMPP Trustee recognises that there is a natural conflict between improving the potential for positive return and limiting the potential for poor return. The RMPP Trustee has specified objectives for the investment policy that seeks to balance these requirements.

9. Retirement benefit plans (continued)

The RMPP's liabilities and assets are impacted by movements in interest rates and inflation. In order to reduce the risk of movements in these rates driving the RMPP into a funding deficit, the RMPP Trustee has hedged the funding liabilities which it was estimated would be built up by March 2018. It has done this predominantly through investment in index-linked gilts and derivatives (interest rate and inflation rate swaps and gilt repurchase agreements) held in liability-driven investments providing economic exposure to gilts and swap rates. The nature of risks and their mitigation process are similar for the DBCBS.

The change in value of the liability-hedging assets is predominantly reflected in the liability-driven investment values above, which have increased from £6,682 million at 25 March 2018 to £7,396 million at 31 March 2019.

The notional value covered by the inflation rate swaps (full exposure to the relevant asset class incurred by entering into a derivative contract) held in a specific managed portfolio for this purpose at 31 March 2019 was £2.4 billion (2017-18: £2.4 billion). The notional value covered by the interest rate swaps at 31 March 2019 was £1.5 billion (2017-18: £3.2 billion).

The equity exposure of the RMPP has been reduced by means of a short Total Return Swap (TRS). This is a derivative that can be used to reduce exposure to a particular asset class without selling the physical assets held. TRS were introduced in order to reduce downside risk whilst broadly maintaining the existing expected returns. The TRS has a market value as at 31 March 2019 of £(20) million (2017-18: £21 million included in the derivative values above. The TRS economically offset £303 million as at 31 March 2019 (2017-18: £257 million) of the Plan's global equity market exposure.

The RMPP's liabilities are impacted by longer than expected life expectancy resulting in higher than expected payout levels. Although this risk is not hedged, mortality studies are undertaken as part of actuarial funding valuations and where appropriate updated assumptions are adopted for accounting valuations.

A fall in yields on AA- rated corporate bonds, used to set the IAS 19 discount rates, will lead to an increase in the IAS 19 liabilities. The RMPP's assets included corporate bonds, HM Government bonds and interest rate derivatives that are expected to partly offset the impact of movements in the discount rate. However, yields on these assets may diverge compared with the discount rate in some scenarios.

In the pension schemes, many of the Inflation linked increases that apply are restricted to a maximum increase of 5 per cent in any year. Therefore, the pension schemes give some protection from this risk of significantly higher levels of Inflation (i.e. above 5 per cent a year), as many of the increases in the schemes would be restricted to 5 per cent in this scenario.

The spread of investments continues to balance security and growth in order to pay the RMPP benefits when they become due.

In addition to property and cash, the RMSEPP holds two buy-in annuity policies of £335 million at 31 March 2019 (2017-18: £148 million) to match its liabilities.

Further details on sources of material uncertainty relating to pension assets can be found in the significant accounting policies (sources of estimation uncertainty, pensions).

Further details on how the assets have been valued can be found in the significant accounting policies ('Sources of estimation uncertainty and critical accounting judgements' and 'Pensions and other post-retirement benefits').

9. Retirement benefit plans (continued)

c) Movement in RMPP and RMSEPP assets, liabilities and net position

Changes in the value of the defined benefit pension liabilities, fair value of the plans' assets and the net defined benefit surplus are analysed as follows:

	Defined benefit asset		Defined benefit liability		Net defined benefit surplus	
	2019 £m	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m
Retirement benefit surplus (pre withholding tax payable) at 26 March 2018 and 27 March 2017	**10,361**	9,847	**(7,038)**	(5,992)	**3,323**	3,855
Amounts included in the income statement						
Ongoing UK defined benefit pension plan and administration costs (included in people costs)	**(8)**	(7)	**(5)**	(899)	**(13)**	(906)
RMSEPP buy-in settlement – operating specific item	**(64)**	–	**–**	–	**(64)**	–
Pension interest income/(cost)[13]	**247**	251	**(168)**	(160)	**79**	91
Total included in profit before tax	**175**	244	**(173)**	(1,059)	**2**	(815)
Amounts included in other comprehensive income – remeasurement gains/(losses)						
Actuarial (loss)/gain arising from:						
Financial assumptions	**–**	–	**(197)**	(53)	**(197)**	(53)
Demographic assumptions	**–**	–	**169**	–	**169**	–
Experience assumptions	**–**	–	**67**	1	**67**	1
Return on plans' assets (excluding interest income)	**344**	62	**–**	–	**344**	62
Total remeasurement gains/(losses) of the defined benefit surplus	**344**	62	**39**	(52)	**383**	10
Other						
Employer contributions[14]	**3**	272	**–**	–	**3**	272
Employee contributions	**–**	5	**–**	(5)	**–**	–
Benefits paid	**(78)**	(70)	**78**	70	**–**	–
Curtailment costs	**–**	–	**–**	(3)	**–**	(3)
Movement in pension-related accruals	**(2)**	1	**(3)**	3	**(5)**	4
Total other movements	**(77)**	208	**75**	65	**(2)**	273
Retirement benefit surplus (pre withholding tax payable) at 31 March 2019 and 25 March 2018	**10,803**	10,361	**(7,097)**	(7,038)	**3,706**	3,323
Withholding tax payable	**n/a**	n/a	**n/a**	n/a	**(1,298)**	(1,160)
Retirement benefit surplus (net of withholding tax payable) at 31 March 2019 and 25 March 2018	**n/a**	n/a	**n/a**	n/a	**2,408**	2,163

[13] Pension interest income results from applying the plans' discount rate at 25 March 2018 to the plans' assets at that date. Similarly, the pension interest cost results from applying the plans' discount rate as at 25 March 2018 to the plans' liabilities at that date.

[14] Excludes payments into pension escrow investments of £7 million (2017-18: £178 million), but includes PSE contributions of £1 million (2017-18: £115 million).

9. Retirement benefit plans (continued)

d) Movement in DBCBS assets, liabilities and net position

Changes in the value of the defined benefit pension liabilities, fair value of the plans' assets and the net defined benefit deficit since the start of the scheme on 1 April 2018 are analysed as follows:

	Defined benefit asset 2019 £m	Defined benefit liability 2019 £m	Net defined benefit deficit 2019 £m
Retirement benefit at 26 March 2018	**–**	**–**	**–**
Amounts included in the income statement			
Ongoing UK defined benefit pension plan and administration costs (included in People costs)	**(2)**	**(465)**	**(467)**
Total included in profit before tax	**(2)**	**(465)**	**(467)**
Amounts included in other comprehensive income – remeasurement losses			
Actuarial gain loss arising from:			
Financial assumptions	**–**	**(16)**	**(16)**
Return on plan assets	**8**	**–**	**8**
Total remeasurement losses of the defined benefit deficit	**8**	**(16)**	**(8)**
Other			
Employer contributions[15]	**403**	**–**	**403**
Employee contributions	**4**	**(4)**	**–**
Benefits paid	**(11)**	**11**	**–**
Total other movements	**396**	**7**	**403**
Retirement benefit deficit at 31 March 2019	**402**	**(474)**	**(72)**

[15] Includes PSE contributions of £110 million.

10. Acquisition of businesses

On 3 September 2018, the Group announced it had acquired Dicom Canada for total consideration of £211 million. This acquisition was funded through a mix of cash and the temporary drawdown of the Group's revolving credit facility. This information includes the fair value of the identifiable assets and liabilities recognised as at the date of acquisition.

	Dicom Canada £m	Other £m	Total £m
Tangible assets acquired	17	–	**17**
Intangible assets recognised on acquisition	103	1	**104**
Trade and other receivables	19	–	**19**
Cash and cash equivalents	2	–	**2**
Goodwill recognised on acquisition	110	3	**113**
Total assets acquired	251	4	**255**
Trade and other payables	(22)	–	**(22)**
Deferred tax liabilities	(18)	–	**(18)**
Net assets acquired	211	4	**215**
Cash paid during the year	212	2	**214**
Consideration (to be recovered)/deferred	(1)	2	**1**
Total consideration	211	4	**215**

The fair value of trade debtors is equal to the gross contractual amounts receivable. An initial review of trade debtors has not indicated any recoverability issues.

The intangible assets recognised relate to customer lists, software and brands. The goodwill of £113 million arising on these acquisitions of which £107 million is non-tax deductible, is indicative of the acquired business knowledge of products and markets, and future efficiencies that are expected through changes in the operations.

No material fair value adjustments have been identified in respect of the remaining assets and liabilities acquired in the year.

Revenue generated from these entities since the date of acquisition is £88 million and profit is £8 million, of which £85 million and £8 million relate to Dicom. If these combinations had taken place at the beginning of the financial year, revenue generated would have been £158 million and the profit would have been £15 million, of which £151 million and £14 million relate to Dicom.

There are no non-controlling interests in relation to these acquisitions.

11. Goodwill

	2019 £m	2018 £m
Cost		
At 26 March 2018 and 27 March 2017	**715**	703
Exchange rate movements	**(7)**	1
Acquisition of businesses	**113**	11
At 31 March 2019 and 25 March 2018	**821**	715
Impairment		
At 26 March 2018 and 27 March 2017	**391**	387
Exchange rate movements	**(3)**	4
Impairments (operating specific item)	**53**	–
At 31 March 2019 and 25 March 2018	**441**	391
Net book value:		
At 31 March 2019 and 25 March 2018	**380**	324
At 25 March 2018 and 26 March 2017	**324**	316

The carrying value of goodwill of £380 million (2017-18: £324 million) at the balance sheet date includes £257 million (2017-18: £261 million) in relation to GLS' European network (cash generating unit – CGU). The carrying value of the GLS European network, excluding interest-bearing and tax-related assets and liabilities, is £775 million (2017-18: £719 million).

The recoverable amount of this CGU, being its net realisable value (i.e. 'fair value less costs to sell') for the purposes of the impairment review, has been assessed with reference to EBITDA earnings multiples for quoted entities in a similar sector of 5.8 (fair value hierarchy level 2 input). On this basis, the CGU's net realisable value has been assessed to be in excess of the carrying value. The earnings multiples referenced would need to reduce by more than 43 per cent to 3.3 to reduce the net realisable value to below the carrying value.

GLS' US businesses (CGU) comprise Golden State Overnight Delivery Services Inc. (GSO) and Postal Express Inc. These businesses are in the process of being integrated to create an interstate overnight parcel delivery service with full US west coast coverage, with the aim of realising operational synergies and commercial benefits. While progress is being made against plans, the combined impact of local cost pressures, refocusing the customer base, transitioning to the new business model and ongoing integration costs means that the expected synergies and benefits will now take longer to be realised.

The recoverable amount of GLS' US businesses are based on 'value in use', using five year forecast cash flows, including terminal growth rates of one per cent and a pre-tax discount rate of 12.5 per cent, including a risk premium for the US.

In the first half year, these combined businesses were loss-making, with operating losses of around $8 million (approximately £6 million). Management therefore performed an impairment review of the assets comprising the GLS US CGU on a 'value in use' basis and, as a result, the goodwill in these businesses, amounting to £49 million, was fully impaired, along with all other assets with a carrying value of £19 million.

During the reporting year, GLS acquired Dicom Canada which resulted in the recognition of £110 million goodwill for this GLS Canada CGU. There are no indicators of impairment of the carrying amount of this goodwill.

The remaining goodwill of £13 million (2017-18: £17 million) arising from an aggregation of goodwill on business acquisitions, each being a separate CGU within the UKPIL business, is not material in the context of the Group's total goodwill.

12. Contingent liabilities

On 14 August 2018, Ofcom published its decision following its investigation into whether Royal Mail had breached competition law. The investigation was launched in February 2014, following a complaint brought by TNT Post UK (now Whistl). Ofcom found that Royal Mail had abused its dominant position in the market for bulk mail delivery services in the United Kingdom by issuing Contract Change Notices on 10 January 2014 which introduced discriminatory prices. It fined Royal Mail £50 million. In October 2018, Whistl filed a damages claim against Royal Mail at the High Court relating to Ofcom's decision.

The Group robustly defended its conduct in written and oral representations made to Ofcom during the investigation and continues to maintain that it has not infringed competition law. It launched an appeal with the Competition Appeal Tribunal on 12 October 2018 to have both Ofcom's decision and fine overturned. No fine is payable and Whistl's High Court claim is on hold until after the completion of the appeal process.